Spencer Sutton:

All right, everybody. Welcome back to another episode of the Birmingham Rental Investor. Matthew and I are very excited to have John Halasz with us today. And John is the CEO of US Home Aggregation. So welcome to our podcast, John.

John Halasz:

Thanks guys. It's great to be here. I'm excited to have a conversation about single family rental houses in Birmingham.

Spencer Sutton:

Well, great.

Matthew Whitaker:

Yeah. John, so you and I met a number of years ago. You had some experience buying rental houses before this and you're one of a number of people that have walked into my office and said you were going to do something and ended up actually doing that, and on the process of doing that, so kudos to you. That's why we wanted to have you on is because you have an incredible track record of buying single family rental houses, you've bought them all over the country. You are currently buying them in Birmingham and a number of other markets. So I'd love us just to start. How did you even get into single family world?

John Halasz:

It's a funny story. A good friend of mine in New York had suggested I meet a couple of guys that built a very large single family rental business. He said, "You're going to love what they do. They're your kind of people." And I met them, tried to disprove what they were doing because it seemed really good, almost too good to be true. And when I couldn't, they said I should come work with them. And I did for a couple of years and then ended up starting US Home after leaving.

Matthew Whitaker:

What were your preconceived ideas that you were like, "Hey, there's no way you can make money in single family rentals." That you were talking about disproving?

John Halasz:

Well, it didn't seem as though there was a lot of net profit in the rental income from homes, and it having to be in just from my prior personal investments where I've bought homes with the idea of making some appreciation, and not having carrying costs or having very little carrying costs for a while, while I let them appreciate. And then seeing a portfolio of homes, they happen to have quite a large portfolio in Birmingham, as you know, and in a number of other places in the country. And then realizing that if you spent time creating processes, making standardized, systematic business decisions about a portfolio and homes, that it was actually quite profitable.

Matthew Whitaker:

And that's why I'm excited that you're on. If you think about the institutional world has only recently in modern time invaded, for lack of a better word, single family rentals. It used to be a very mom and pop business. And a lot of institutional people were just like you, you thought there's no way you can make money in single family rentals, but you changed your mind. And now you're both feet in.

John Halasz:

Yeah, that's right. It's funny, I still think it is a mom and pop business, even though there are a handful of big institutions that have bought one another, and merged, and made less institutions, the average owner still owns two and a half houses.

Matthew Whitaker:

And what is your background, not to jump too far ahead, but what is your background from like a professional standpoint? Tell the audience what you've done for a living prior to single family world.

John Halasz:

When I finished college, I made clothes for people in San Francisco. I sold that business and got into the investment business. So I went from something very creative to something pretty dogmatic, looking at blinking symbols on a screen, and buying and selling securities into the single family rental space. So it was pretty diversified, but focused on finding value and trying to keep my own personal creativity alive. I'd always owned a rental house or two, until the financial crisis. Then I sold and reevaluated what I wanted to do as I started to grow up.

Matthew Whitaker:

And so we fast forward, you worked for a little while for this other institutional group, and then you went out and started your own, for lack of a better way to put it. And you started US Home Aggregation. Can you tell me a little bit about getting started, when you starting as an institutional buyer, how you have to get started doing that?

John Halasz:

Well, there's kind of two basic parts, you need the business and you need the money. So creating the business, trying to build processes and standardized means with which you want to find both markets and homes, buy them, renovate them in most cases, and then get them rented, and have them managed or manage them. So creating that is a big part of the business. And it's an operating business, it's not an investment business. And then finding the capital to support you based on the experience. In my instance, I had quite a bit of experience, my partners also do, so it made it a little bit easier to get the capital. But buying the first house, figuring out what can go wrong, watching it happen, and then fixing it, and then getting to 30 houses, and getting to 100, and then getting to 400 has been our journey so far.

Spencer Sutton:

So how many houses do you own currently right now? And what is the vision? What's the longterm vision of your company?

John Halasz:

We're around 500 houses now. Our longterm vision is to be a large aggregator. So on my vision board, I have 40 to 50,000 homes over the next 10 years. But that's dependent upon what the business opportunity consists of. We evaluate and reevaluate every year, all of our markets, every quarter, how we're buying, what's changed, can we continue to buy? Can we maintain yields that make it worth the effort to do this business? This is a little bit harder business than buying a building with 50 or 100 units in it. So has to be worth it to make the investment in time and scale versus just buying a building.

Matthew Whitaker:

I'd like to go back to when you were getting started and you had the whole country, you could have bought houses in any market. Talk to me about the decision making process for choosing certain markets. Because you didn't just choose Birmingham, although that's what we're here talking about, but you have focused on certain markets, and I'm curious, what were some of the determining factors of focusing on these certain markets?

John Halasz:

So we spend a lot of time and use technology to help try to understand. First and foremost, we like tertiary markets, we don't want to be in big cities. We've tried Atlanta, it doesn't really work for us. And that would be what I consider a big city, Chicago as a net population, outflow, stuff like that. So we're looking for fundamental growth within the community or the city. We like to call it an MSA, metropolitan statistical area. We can measure data that way. So for us, this is a data-driven exercise. Where are people migrating to? Where is their net population growth that's two times larger than the US national average? Where are there areas where there's a bifurcation in the market. You see home sales fairly volatile, some months really good, some months really bad. And it's because of, quote unquote, inventory problems. But you have a whole bunch of houses that no one can buy in the middle class, which is where we focus our time. And that is non-move-in ready houses. They can't buy a house if it's not fully renovated and move-in ready, they won't get a loan for it. So if we find these fundamental items, that leads us to an area. Birmingham, no offense, it was second on our list when we started the business.

Matthew Whitaker:

That's okay, I was-

John Halasz:

Nashville was first.

Matthew Whitaker:

... second on the life's list too, I always point that out.

John Halasz:

So we chose Nashville first and Birmingham second. And our goal was to run the corridor from Birmingham, Huntsville, and Nashville. It turned out that we just weren't able to buy homes in our yield in Nashville, prices had moved too quickly, rents couldn't keep up with the price appreciation. So we ended up not buying any houses in Nashville and started in Birmingham.

Matthew Whitaker:

Well, let's talk about Birmingham for a minute. What is it about Birmingham specifically that makes it attractive to institutional player like you?

John Halasz:

Well, first of all, it's a great city. It's fairly large, relatively compact for its size, has tons of growth, it's beautiful. And you have a lot of houses that need some TLC that can't be purchased by a traditional retail buyer, who's just moved there because of one of the many car or car supplying companies, or medical and technology growth that's happening there.

Matthew Whitaker:

Talk a little bit about... Because I don't want to get off when you were getting started, but you had a great... And I want to get back to Birmingham, but I don't want to miss this either because I think it's part of your story, and I think it will resonate with some people too, is the capital raise process. Talk a little bit about the capital raise process when you're going through trying to get other people's money to invest in your vision.

John Halasz:

That's a little bit more challenging when you look at how to do that. So you start with friends, your own money, and then people you know, and spider web out to finding institutions that are willing to spend the time to understand what your value proposition is, how you're going to do the business. You really have to communicate and understand how to make something a repeatable process so that you can prove to someone whose money you want that this is something that can be done, and there's very specific mechanics around it. So it's not a gut feel, it's not, "I just liked it." You have to really be able to communicate to an individual how and why they need to put their faith in your ability to execute the mission that you've shared with them.

Matthew Whitaker:

Do you have any kind of idea... I've done some capital raising, not nearly as much as you have. But I have this idea that everybody thinks it's a good idea, but when it comes to writing checks it becomes very challenging to get people to come off the money. How many people do you feel like need to think it's a good idea, that actually narrowed down to writing checks? Or do you have any context for that?

John Halasz:

I guess.

Matthew Whitaker:

Or maybe it's-

Spencer Sutton:

It depends on how good of a salesman you are.

Matthew Whitaker:

I can't even tell you... That's right.

John Halasz:

You could be a really bad salesperson, and maybe 10% of the population is just like you, you just have to find that 10%, which may not be super easy. But to answer your question, it is a little bit of a loaded question because depending upon your circle of influence, if people value your opinion, feel like they can trust you, you find those check writers a little bit easier. But you're still talking about hundreds or thousands of calls and conversations to get meaningful amounts of money. If you want to stick with five or 10 houses, it shouldn't be that difficult.

Spencer Sutton:

Yeah. I think it's interesting, something that, we were talking about the vision for your company. And I think it's an important point because a lot of our listeners are out of state investors. They're very interested in Birmingham, maybe they own one house or maybe two houses. But a lot of the people that I talk to haven't really thought about their vision for owning rental property, even from an individual standpoint. And just how important, I think, that is to really think about what are you trying to accomplish? And I think I've even heard Matthew talk about before, if you're just an individual investor, buying one or two houses is not probably the way to go about it. If you're going to start, you need to think about at least owning 10 houses. Have you said that Matthew? I think I'm recalling that.

Matthew Whitaker:

Yeah. That's my thing is don't own one. If you're going to get into rental property own 10. Because 10 probably is way easier than one.

John Halasz:

Yeah. And just 10 don't blow up like one.

Matthew Whitaker:

Yeah, you end up-

John Halasz:

You're guaranteed to have one problem. If you get it on your first one, you're stuck.

Matthew Whitaker:

Yep, yep. You scale to your benefit, which is exactly your thesis. Talk a little bit about, so you have Birmingham as one of your markets, and I don't want to get too specific into what you all are buying just because that's what you all are doing. But talk about how you kind of created your buy box. How's that decision making process go in? Is it that you're looking for a return? Is it that you're looking for a certain amount of appreciation? Some of both? Talk about just how you create your buy box?

John Halasz:

Our buy box is fairly specific. We like to get our cake and eat it too. So I want both return and yield. Not trying to be too greedy. If you want too much yield, you have zero return. If you want too much return, you have less of a chance at yield, or you have yield but there's a lot of risk around it. So creating our buy box was very important. We started with what we believe is a fair target yield for a demographic that we wanted to focus on. So we're looking at what we call middle-class, kind of a B... We'll say, if you have different classes of real estate, we're in the largest portion, which would be kind of C+ to B+ range houses, depending upon what market we're in. And then focus on trying to understand household income down to a block level and what that demographic can afford in rent, and find those houses within that area that will get us both yield and appreciation with a little bit of work.

Matthew Whitaker:

And I think the takeaway for our audience is you don't have to be as sophisticated as John's group is, but you do need to have a process, right? You do need to know what you're looking for, you need to have your own buy box, you need to be thoughtful about that buy box. And as you continue to refine your buying, you continue to... Even you all, as sophisticated as you all are, you continue to refine your buy box as you continue to buy, right? You didn't think you had it done right off the bat, you've continued to make the process better. And I think for investors, even small time investors, that's an important principle is to know, this thing isn't put together when I first start, it is going to continue to get better over time. Any thoughts on that, John?

John Halasz:

Yeah. It's interesting. You mentioned, and I didn't think I had it right on the first house I bought, but I did. But each house you buy, you learn a little bit more, and you feel the pain or the prosperity in each purchase you make. So just to get a handle on it, we had very specific criteria and what we want to buy. And we still bought houses that somehow we really liked the house, it met all the criteria, but maybe we still paid too much because something happened in renovation, or the house got robbed right when it was finished. So we invested in a new HVAC, a new hot water heater, new appliances, put them all in, and we're out 15 grand because someone decided they wanted to take them before we rented the house. That stuff can happen. You can do a lot of things to prevent it, you can be very careful, you can not set those until there's a prospective tenant in. But those are all learning points from house number one through house number 500, where we install Bluetooth locks and alarm systems in all of our houses now.

Matthew Whitaker:

Talk about, because you hit on something that I think is a great thing to talk about. What are some things that you see newbie investors, some things that you see them doing wrong, that you're like, "Oh, that's kind of like a rookie mistake."

John Halasz:

Oh, there are a lot of those things. Trying to understand the balance between how much to spend on your renovation versus how much you're going to get back on the home. There are tons of newbie mistakes in there. You really have to figure out what you want to provide your tenant. Even if you're going to have two rental houses, figure out what it is you want to provide before you go shopping, or before you have a contractor influence how you're going to purchase so that you can say, "I'm providing this specific thing. And I'm looking for this specific value." Before you invest the dollar.

Matthew Whitaker:

Is there anything you see that has a high return for a low investment, that in terms of making a house better, something people can do that's kind of a trick of the trade that you've learned over the years?

John Halasz:

Good flooring, very clean, bright rooms. Those are very inexpensive relative to the price of the home that... Find out what the number one paint color is for the interior and use that because there's a lot of science that went into someone saying stormy gray or some form of grays is the best color to use. Accents and trim to really set things off are simple and inexpensive. But having something nice and clean inside that doesn't have to be expensive is definitely a plus.

Matthew Whitaker:

So let's say someone's just getting started, and in their mind they're going to build a rental portfolio, and they are a mom and pop, right? They don't expect to be an institutional investor and don't expect to buy 500, but maybe they want to buy 50 in their career, or 25 houses, or 10 houses. What advice would you have for them getting started?

John Halasz:

Make a plan. Everything in this business is about process, in my opinion. If you create a process and you have a standardized way of doing things, you can always understand where you may be able to create efficiencies, where you may be able to be effective at buying and managing these houses.

Spencer Sutton:

We had a relationship when you all came to town already, so you already knew us a little bit. But when you go into a new market and you're looking to... You're planning how many houses you're going to purchase, you're defining your buy box for that market. What are you looking for in a property manager? So are there any things that you... Do you have an interview process, or how do you even start that?

John Halasz:

Yeah. We actually have a standardized list of questions that we ask. We want to understand experience within the single family market, specific within our buy box, specific if they're big enough. And we want to understand all of the processes, meaning the property manager has to have processes first. So that's one of our early questions. What are your standardized processes to onboard a new investor or client? What are your processes to take applications, screen, and vet tenants? What are your processes for late payments? Everything has to be process oriented.

John Halasz:

What is the software that you use, and how is that helpful for us as a client to be able to get insight into the portfolio without having to call you every sixth day, 15th day, 22nd day, and 30th day of the month? These are really key things that if their systems and processes... We have the ability to ask questions after we're a client if things don't always go smoothly. And this isn't an easy business, so there's always going to be bumps in the road. But if there are processes, we can say, "Okay, if we followed all the processes, we got unlucky. If we miss the process, how do we prevent that from happening in the future so that we don't maybe have this problem again?"

Matthew Whitaker:

You mentioned something that I know about you all that, is software. You all actually even have your own software. And can you talk about how that adds value to your company, allows you to do some things? And if you don't mind sharing what things does being able to write your own software allow you to do?

John Halasz:

Well, again, our business is very process oriented. So for us, we started with software that you can prepackage buying pay per house for that software. And it was fairly efficient to use. But we have a jury-rig our processes into making it work rather than having a software created to work with our processes so that our business was smoother. So software helps a lot, it's really expensive to build your own. So you have to have in mind, 10, 20, 50 houses doesn't pay for it. You could buy a lot of houses for the amount of money we spent on software development. But there are off the shelf property management, and maintenance, and renovation softwares that people can use that are fairly inexpensive, but tremendously helpful in managing and understanding what you're doing if you're going to buy more than two or three houses.

Matthew Whitaker:

And we're in this Coronavirus world now, and nobody knows what the future is. But one of the things we can be fairly certain of is whether it's short term or longterm, there's going to be some sort of recession. Talk about buying homes, the opportunity for investors that are just now getting into the business of buying during a recession. Because in your previous gig at the other institution, you all are buying a lot of homes during a recession. So what's the difference between buying in a bull market and a bear real estate market?

John Halasz:

You know what? I think to reiterate, having a process is important to be able to see opportunity, or understand where you need to go is also important. So being open to looking and understanding, but recessionary buying, COVID, post-COVID, during COVID right now, I think... I've been on a number of panels and discussions with other institutional buyers and some argue that there really isn't that much of a buying opportunity because we all have a bunch of cash and it's been difficult to buy for the last six to eight months. It's getting a little easier, but we're buying all that. I would suggest that if you have a plan, you should be able to find what you want and be patient. I personally see a little bit more inventory in Birmingham and the ability to buy in Birmingham.

John Halasz:

Some of our other MSAs were able to buy, we're going from a B or a B- house to a B+ house. So we're not necessarily buying things cheaper, we're buying things better as an opportunity. I don't know how long it's going to last. My guess is that the first wave of sellers that took their houses off the market because they were afraid will end up having to sell in September. And at that point there'll be more inventory. And I think we'll start to see inventory coming back online. Don't know where prices are going to be, kind of hoping there'll be better, but you never know.

Matthew Whitaker:

And this gets, you're talking about process, if you have a process then Warren buffet has his process. And he doesn't buy anything that doesn't fit his buy box. And when stuff slips into your buy box, you can just buy it. You're in a position to buy it if you're ready to pounce. And I think that's the thing, that was the takeaway for me when I was buying in recession too, is having a process going through, knowing what I was willing to buy and what I wasn't willing to buy. And then when it met what I was willing to buy, is just pulling the trigger was super important.

John Halasz:

Yeah. I agree. You have to be always searching, always looking, trying to turn over rocks. Having people do it for you is fine if you're using brokers and agents, we do that as well. That as long as you're always looking and always willing to look, stuff will fit.

Matthew Whitaker:

John, I think this has been great. I sure appreciate you giving us your time. I know you're a super busy guy. You're in the middle of New York right now, which obviously is dealing with this way worse than an area like Birmingham. It's shocking to me how many homes were still renting in Birmingham while we're shooting this amidst the pandemic. But thank you so much for giving us your time. I really am excited about this podcast. I know people are going to gain a lot of value from it, so thank you so much for doing it.

Spencer Sutton:

Yeah. Thanks, John.

John Halasz:

Thanks for having me. Thank you. Appreciate it guys. Take care of, stay safe, and enjoy, as I think you guys will be able to get out and about sooner than us.

Matthew Whitaker:

I think so.