

Spencer Sutton:

All right, everybody. Welcome back to another episode of the Birmingham Rental Investor. So we're super excited to have some representatives from Roofstock here with us. We have Tom and Michael, and guys, we're excited to learn more about Roofstock. I mean, we've had a great relationship with you the past several years, and I want our listeners to understand more about the platform, more about what you offer, and just how you serve investors really from, I guess, around the world. You've probably got them everywhere, I would imagine.

Tom Schneider:

Yeah, really happy to be here. Thanks for inviting us on.

Michael Albaum:

Yeah, thanks so much for having us, guys. Really appreciate it.

Matthew Whitaker:

I was telling you guys earlier today, there's been very few people that have walked into our office, and Spencer and I know that we have people come in all the time and they say, "We're going to do this, we're going to do that."

Matthew Whitaker:

But in 12 years of business, I've literally only had a handful of people walk in and say, "This is what we're doing." Basically project out what they were going to do in the future and Roofstock is one of those people. So kudos to you for building a great business and providing a great service to your clients.

Matthew Whitaker:

So tell everybody who doesn't know Roofstock the backstory and I'd love to even understand the Waypoint Homes days as well.

Tom Schneider:

Yeah, definitely. So first at a high level, Roofstock is a marketplace to allow people to buy and sell properties. We service individual retail investors. We also service institutional clients, such as Reets. But the founding story is one of our founders, a serial entrepreneur named Gregor Watson, was buying houses in Dallas. This is in 2012, 14, as all the institutional capital is coming in.

Tom Schneider:

And he went to a broker in Dallas trying to sell 500 homes and he walks into the office of the broker and he says, "Can you sell these 500 homes for me?" And the broker scratches his chin for a little bit. And he looks back up at Gregor and he says, "Sorry, I can't sell these for you." And Gregor's like, "Are you kidding me? This is a gold mine." And the broker in Dallas says, "I don't own 500 signs. So I can't sell your property." So what a perfect identifier for disruption, where you're giving someone more business than they can handle and they can't even handle it.

Tom Schneider:

And I mean, this kind of leads into, back in 2009, 2010s, as prices were falling, rent stayed very stable. So it just created this new asset class that never was around before. So able to make this asset class more liquid, what Roofstock did was this platform. I think, sorry, dog's barking. Yeah [crosstalk 00:02:51]. Bodie, knock it off. Let's see where I was at.

Matthew Whitaker:

You were just saying the platform and, for context, we're all in the middle of COVID hell here. So we're doing all this from houses, with kids and dogs. And so it's just a part of it, getting good content out.

Tom Schneider:

Exactly. Getting some good content out. So anyways, just to take a step back. So solving for liquidity in the space. So being able to make trading real estate accessible from remotely and being able to do it at scale and all of that good stuff.

Matthew Whitaker:

And also one of your founders worked with or started Waypoint Homes and they basically grew a portfolio of rental homes too, and helped take it public, right?

Tom Schneider:

Yeah, that's right. I had a fun part of that journey as well. So this is one of my early jobs going out of college where I was actually a place kicker in college and it was my kicking coach was one of the co founders of it. And I started interning for him a couple days a week into a full time. And this is 2009, as I was saying, when the sky was falling and what they were really smart and recognized was the prices going down, but the rent staying very stable. So this group of investors is Colin Wiel and Doug Brien, and then shortly Gary Beasley, who's the CEO at Roofstock was also a co-CEO. They started buying just with friends' money and their own money buying properties in Northern California. Then they went friends and friends' money, started expanding down to Southern California and basically fully vertically integrated where we were doing the acquisitions. We were doing the property management, the leasing dispositions, where there was dispositions, but basically just a trial by fire, kind of inventing this, doing this at scale.

Matthew Whitaker:

That's awesome. And so the problem you're trying to solve, which was actually a problem I had when I first got started, I was on the very beginning of turnkey days. So I didn't have 500 homes to sell, but I had trouble finding buyers for five homes and 10 homes that were, that were great deals. They were great turnkey homes back in '09, 2010, kind of during the recession. And that's kind of how GK houses got started, but you provide a platform for somebody like a turnkey provider, or even an investor that wants to buy turnkey. You basically create an efficient marketplace where somebody, if they want to buy or somebody, if they want to sell, can go to it and even invest, not just in their local market, but in other markets. So you have a platform. How many markets are you guys in now?

Tom Schneider:

We're in 70 markets now. So we have a big footprint. And the way that we're able to do that is traditionally as an investor in real estate, you're limited to just properties within your market, just because there's an amount of overhead to doing diligence on properties and managing properties that are remote. But thanks to smart savvy, effective property managers such as yourself, as well as a platform such as Roofstock, it really opens it up to being able to due diligence on these properties and evaluate them using the same tools that an institution would, and then having institutional quality property management to manage the ongoing service. So I'd say the combination of those two tools with Roofstock being able to do the transaction and evaluate the property, and then having great property managers such as yourself being able to manage it. It really opened the doors up for remote

investors to diversify out of their own existing market and explore the 70 plus markets that Roofstock operates in.

Matthew Whitaker:

Yeah. It's kind of hard to find a \$100,000 house in California. That's a cash flows-

Tom Schneider:

Bathroom remodel.

Spencer Sutton:

Right. That's the second time we've heard that today.

Matthew Whitaker:

It is. That it's exactly right. So it allows people no matter where you are to invest in whatever market you feel comfortable investing in, whether it's a cash flowing market like Birmingham or a cash flowing market like Atlanta, or what are some of your nicer markets that people are investing more for appreciation?

Tom Schneider:

Matthew, Birmingham and Atlanta are both very nice markets. And I mean, with any of these markets, you can find a little more cash flow versus a little bit more value. Some of the I'd say more appreciation markets we operate in Dallas. In the past we've had properties in California, but it's just really thin cashflow, but for some people just holding on asset preservation and looking for appreciation, that makes sense. Other big markets for us, Florida is a pretty big market. Memphis, up in the Midwest, we do work in Pittsburgh and Cincinnati and Ohio, and all of those... Indianapolis is a pretty big market for us. But I'd say the kind of sweet spot for us is typically these properties that are anywhere between \$175,000 down to \$80,000 and roughly \$1,000 of rent or \$800 of rent up to 15 to \$1,700 of rent.

Matthew Whitaker:

You just described Birmingham, that is Birmingham.

Tom Schneider:

I'm telling you, yeah, Birmingham is an excellent market.

Matthew Whitaker:

So let me ask you this. Who, who is your ideal customer? Like who is the avatar? Who are you really marketing to? Who's using your platform?

Tom Schneider:

As I said before, we have some institutional clients, and these are publicly traded REIT, where we're like a little investment bank, helping them buy and sell these large portfolios. But there's the other side of the business that I'm really passionate about. And I'm acted in, as this retail side of the business. And to answer your question on who is that avatar, these are typically people who live in areas where buying a rental property, either one, it doesn't make sense because you're not going to get much cashflow or two, they want to diversify. So we have a good amount of coastal buyers who are buying inland, but as a marketplace, the sellers are a really important customer for us as well. So we invest quite a bit in trying to make a great experience for sellers who want to come list the property.

Tom Schneider:

And it's advantageous for sellers to list the properties on Roofstock for a couple of reasons. One, they get access to this huge, I think we have like a couple of hundred thousand users coming through the site every month. So it's just a much bigger exposure of their listings when they list it on Roofstock. And I think I might've missed this a little bit earlier in talking about how we provide this transparency and this institutional level skills for evaluating properties is when we list a property on the website, we do a bunch of work on it.

Tom Schneider:

We will run a preliminary title report to confirm that title is clean. We will run an inspection on the property. And this is looking at safety and habitability, a lot of big ticket items. If the property is occupied, we'll look at the payment history, as well as the lease to make sure that they match up. And we'll actually post a redacted version of the payment history. So as an investor when you're going to evaluate a property, you can look at a property. We pull in a bunch of data that relates to school scores, crime scores, all that good stuff. And then you have this property specific stuff like inspections, and ledgers and stuff like that.

Matthew Whitaker:

So you guys do kind of the basic diligence for an investor. I mean, somebody that's getting started may not even know what diligence to do. So you've already done some things for them and held their hand to get them at least further down the road.

Tom Schneider:

That's right. And you know that when you're kind of talking about alluding to people who are just getting into it, that's a passion of mine that I've been involved in this program called Roofstock Academy over the last couple of months. And with... Michael's on the call too. When I first started at Roofstock, I was on the product side, building out the technology to support managing transactions at scale, getting listings up in scale. After about a year, I moved over to the operation side and manage the operation teams that were doing the work, listing properties. And then about six months ago, I was talking to our chief marketing officer, really awesome guy who's my boss, Suresh and telling him, I think we can solve a lot of problems on the education side, where we can build all these operational tools and move faster. But I think what's really going to help us hit that hockey stick is get people smarter, getting people to know what to look at when they're evaluating properties. And that's why Michael and I have been spending the past six months or so building out this Roofstock Academy program.

Matthew Whitaker:

Michael, Tom's taken all the limelight. Why don't you tell us a little bit about Roofstock Academy?

Michael Albaum:

I know, yeah. Thanks so much for letting me hop in here. I appreciate it. Tom, I think you both really hit the nail on the head with talking about the education side of things, because so often we get the question with new members in the Academy is okay, I've heard about real estate investing, but I don't know how to do it. I don't know where the rubber meets the road. I don't know what things to look at. So we take people through, even from zero to one, in terms of you've heard of real estate investing, you've heard of homes, you've heard of rent, but you don't know much about it. I don't understand how to go get financing. I don't know how to evaluate a property. I don't know how to look at different markets do due diligence on my own.

Michael Albaum:

So this is something that we really help people with. Again, starting from zero all the way up to experienced investors who are just looking for diversification within their portfolio, and whether that's going after different asset class, they've done single family. Now they want it to get into multifamily or double net or triple net lease properties. So really we're approaching it as a holistic real estate investing education platform and tool that we've built out. And so far the feedback we've gotten, obviously I'm a little biased, but has been overwhelmingly positive.

Matthew Whitaker:

Talking about the investment from someone's standpoint that wants to get involved. What is the investment for the person to do that?

Michael Albaum:

So the Academy right now costs \$1,250. And with that, you get full access to all of the content that we've created. It's about 50 plus hours of on demand lectures, access to our Slack channels. And for anyone who's not familiar with Slack, that's just an instant messaging platform that we use to communicate amongst ourselves within the Academy. And then you get access to one on one coaching with myself or Tom or one of the other coaches within the Academy. So we find that between all the coaches and all the members, if someone doesn't have the answer to something, we can put our heads together and help people figure it out. And along with your registration, you get a \$750 marketplace credit once you transact through Roofstock. So you'll get a credit kickback at closing for 750 bucks after you joined the Academy. And after you close on a property through the marketplace.

Spencer Sutton:

I think that's great. I mean, I've just been very impressed with Roofstock because I talked to a lot of Roofstock investors, like people that are coming through your platform, and that have seen us as a preferred property manager or a partner of y'all's and they're calling us, they're asking us probably more local questions, but I think that is just the fact that you all, what I feel is that you really do care about both sides of the... You care about the investor, who's selling the property, but you obviously also care about the investor who's wanting to get into real estate or maybe, they could already be in there. But I think that's just evident in my conversations with these people. So kudos to you guys. You've done a great job.

Matthew Whitaker:

Yeah. I'd just like to say Spencer is the one that taught me how to buy a rental property. And he said he was an investor, but you guys are the legit things and I'm more of a salesman. Right.

Spencer Sutton:

I sold Matthew his first rental house.

Matthew Whitaker:

Yeah. This is the guy that got me into this business. And so now we're stuck together.

Tom Schneider:

I think it's such a key thing to this, to being a marketplace and being a property manager is at the end of the day, it really comes down to trust because there's so many options out there. And one thing, in

starting Roofstock Academy and probably similar to any kind of business within real estate is there are some less savory people out there. There are these get rich quick, come to my hotel ballroom and I'll teach you everything to know. And at the end of the day, people that are successful with this, they're disciplined. They have a process. We were talking earlier with Matthew about some of the culture that they have around the property management company, which I love to hear about it. It was very stoic, kind of like Marcus Aurelius. We were talking about it earlier. It was great. But, at the end of the day, investing in real estate, it's a longer burn. You can build a lot of wealth in it, but the shortcut is hard work at the end of the day.

Spencer Sutton:

No, there's no doubt.

Matthew Whitaker:

Let's talk a little bit about property managers, and we don't want this to be a gkhouses promo. We really want to know some real things that you see that are some good things that property managers are doing around the country. Some of your more successful... Clients are happy about. Tell us about property management.

Spencer Sutton:

Yeah. And then even how you vet your property management companies.

Tom Schneider:

That's great. Michael, do you want to jump in?

Michael Albaum:

Yeah. So from the Academy side of things, and just from my personal investment side of things, the feedback that I've been given by Academy members, and then also just my personal feedback is communication, communication, communication, communication. And we were recording a podcast earlier, Matthew, and you were saying, that's something that you guys really pride yourselves on. And you couldn't see me, but I was smiling from ear to ear. And I think that's what makes or breaks a good or great property manager. And having those difficult conversations and just being honest and truthful and upfront and getting ahead of problems, as opposed to trying to catch up behind the eight ball is what, in my opinion, and it sounds like the vast majority of the Academy members as well, makes a really great property manager.

Michael Albaum:

Also just on a personal note, when property managers go above and beyond, it really speaks volumes about them as a company and to their culture and their integrity. So if a property manager is only going to fill the role that they're getting paid to do, won't do anything less, anything more, that can often be frustrating. So when someone tells me hey, you know what, this was a problem. And I know I didn't ask you, but I kind of took it upon myself to get this problem corrected. Is that okay? I mean, that to me separates them from the pack big time.

Matthew Whitaker:

Talk about how you vet your property managers. You have preferred vendors on each side and we're not the only one in Birmingham. So how have you gone in, and basically vetted these as your vendors?

Tom Schneider:

So it's a couple step process. So the first thing that Roofstock does when we bring on a new preferred property manager is we have a standard set of questions asking about what kind of accounting software do you have? How many employees do you have? How many properties do you manage? Because you want a company that is going to be sustainable. At the end of the day it's Roofstock when we're promoting a property manager, there's a little bit of our name kind of goes on the side of it. Because if we recommend someone to go to a property manager that is ineffective or not good at what their trade is, it's going to look bad on property management. So the first step is collecting a sample lease, looking at a sample tenant, talking about what their rent setting processes, just doing a lifting up under the rug.

Tom Schneider:

After that we'll whittle down the property managers to maybe... Say we started with 10 moving down to four or five, then we'll do an in office visit where we'll check out the operations, meet with the founders such as yourselves. And get a better understanding of, is this a company that we're going to want to attach our, our brand with? And each market, we try to have a couple of different property managers within each market. So we offer some choices to our customers and really put them in the best position to be successful. Because with all of this, if we have investors coming on the site and not being successful, it doesn't work longterm. A motto that our CEO uses is longterm greedy. So if our customers are able to have long enduring success, that's going to give the company long enduring success. So it's a three step process with the initial kind of vetting and then a phone call. And then an in person visit.

Matthew Whitaker:

One thing you forgot to mention was Andy and Jason came in and asked for blood samples and-

Tom Schneider:

Yeah, exactly drug tests, everything.

Matthew Whitaker:

That exam was very uncomfortable. To become a preferred Roofstock manager.

Tom Schneider:

Barrier to entry.

Matthew Whitaker:

You were going to say something, Michael.

Michael Albaum:

Oh, you stole my joke. I was going to say, don't forget about the blood oath that we make.

Matthew Whitaker:

I'm sorry. I'm sorry.

Spencer Sutton:

So, let me ask this question. If we have an investor who's listening to this podcast and they're considering buying a house in Birmingham or Atlanta or any one of your markets that you're in and they're looking at a local turnkey provider, and then they're looking at Roofstock, how do they make that

decision? What makes Roofstock unique? And I think we've already hit on some of it, some of the due diligence, but anything else you wanted to add about just going with a local turnkey provider versus going through the Roofstock platform?

Tom Schneider:

I think something that, well... First I would say evaluate as many deals as you can, there's no reason why shouldn't get a lot of properties in front of your face and looking at them and making sure that you're using apples to apples assumptions within the financials. But to talk about what's unique about Roofstock is, with regards as a platform for buying is, a lot of turnkey sellers we'll have you buy it from them. And then they do the management and they do everything. But Roofstock is we try to be very independent of all of those other decisions. We want to be very good at managing the transactions and doing the diligence. And if you want additional support from us, if you want preferred lenders that we use, great, we have preferred lenders, but you can use your own. If you want preferred property managers, great. We have preferred property managers.

Tom Schneider:

Versus some of these other type of turnkeys. Sometimes you'll see they'll ramp up additional costs and fees on you by being a solo provider. But I like to put it this way in that Roofstock wants to be the river guide, allowing you to scale without locking you in as your sole provider [crosstalk 00:21:46].

Michael Albaum:

Something else to touch on, too. In addition to that, Tom is I think a lot of turnkey providers are the physical owners and then become the sellers and then become the managers. With Roofstock it's really more of a transactional marketplace. So the properties that you're seeing for sale on Roofstock are being sold by other investors. Roofstock doesn't own them. They're the transaction coordinator, if you will.

Matthew Whitaker:

And to be clear, there's turnkey providers that they sell through your platform.

Spencer Sutton:

That's exactly what I was about to say, yeah.

Matthew Whitaker:

So they see the value in it as well. So it's not like you're basically just creating a platform for those people to sell. So talk about if I'm a new investor, I'm just checking out Birmingham. Can I get on your site and peruse it without signing up? Or do I need to... [crosstalk 00:22:36] Can I stalk your site?

Michael Albaum:

Most certainly. I think there's probably... You would not be alone in stalking the site. So yes, you can get in and it doesn't cost anything. You do not have to create an account. To get into the diligence vault, which I talked about a little bit, where we have some inspections and payment history and some additional details, you do register and create an account. It does not cost you anything to do that. So a fun exercise too in stalking properties, on the fee side, I'll just touch on this as well. With Roofstock as a transaction platform is as a buyer you're paying 0.5% Or \$500, whatever is more. And then at the close, the seller is paying I believe it is 2.5% at the close. So it's very reasonably priced. The commissions are pretty low.

Matthew Whitaker:

One of the things I think is amazing is y'all are paying for this diligence. That's the whole thing people don't understand. I mean, you're investing in the diligence. It's not like you're getting people out there for free and you're getting some fly by night diligent. I mean, it is literally diligence that y'all are paying for up front, right?

Tom Schneider:

Yeah, that's right. And it's not just... It's pretty in depth diligence where we're taking the same thing we did when we were operating one of the first publicly traded rates in single family rentals. We're doing the diligence and doing it a pretty thorough level.

Matthew Whitaker:

Talk about your more seasoned investors that have bought multiple properties may be in multiple cities and you see them coming back. Is there anything you see about them that they're doing successfully, whether it's how they finance, whether it's things they look for, how are people leveraging your platform to be successful?

Tom Schneider:

Yeah, that's a great question. I'll start off and then I'll give Michael a little bit of time to answer. But what we see with the more successful investors is they have kind of a specific strategy and a thesis and then go deep on it. There's this one guy who really focused on tertiary markets and is building Birmingham and Memphis, he's building a portfolio. And by doing things in bulk is another way. So you're able, with your buying portfolio deals, you might be able to get a little bit of a discount on both the transaction price and then other services that you can apply onto that with regards to insurance and financing.

Tom Schneider:

So being strategic where you can, getting economies of scale, properties move pretty quickly on the website. So once you build that buy box and know what you want to buy, moving pretty quickly with regards to making offers. I'd say some things that the list of unsuccessful people is they sit and wait for the perfect deal, or maybe they only try to negotiate at a really low discount. So they only make offers at like 70%. So I think being reasonable with yourself on being proactive and making a buy box and hitting the go button when it's time, when you see the right property that fits that.

Matthew Whitaker:

Yeah, we were talking about this earlier in creating a buy box and then knowing what that buy box is. And then as soon as a property basically slips into that box, being able to pull the trigger and having the confidence to pull the trigger, it makes all the difference in the world when you're buying these properties, because being a successful property investor is all about discipline, being disciplined to your buy box, but also being disciplined to pulling the trigger. When you need to. Michael, would you add anything in terms of successful things you see from people on your platform?

Michael Albaum:

Yeah. I think the only other thing I would add is the education component, which is where the Academy fills in that gap, is having a solid foundation, understanding what you're doing, allows you to be really effective when it comes to making your decisions and even building your buy box. So I've worked with investors that came to me and said, "Hey, well, I tried this before. It doesn't work. Maybe you can help

me." And so I was asking them about their history and how they approach it. And they said, "well, I can just buy houses, right?" That's just how real estate investing works. I said, "well, not really."

Michael Albaum:

I mean, it can, of course there are successful people that have done that, but to start with a good foundation, I think, makes people a lot more effective. And so once you have that foundation, understanding of what that process looks like, what owning real estate looks like, operating real estate looks like, then you can really make informed decisions. And once you do it once it's just a rinse and repeat. The markets may change, the asset class might change, but the fundamentals remain consistent throughout the process. So just applying those fundamentals again, and again, really allows people to invest anywhere.

Spencer Sutton:

Matthew, if we would have heard this advice back when we were starting out in the mid early 2000s, we could have saved ourselves a lot of heartache, man. We were just slinging deals around weren't we?

Matthew Whitaker:

Yeah. We would not have been broke throughout the last part of the early 2010s. That's no doubt.

Tom Schneider:

Yeah, but taking action, man, you learn so much.

Spencer Sutton:

Oh we took action. And action took us. No, we did. We learned the hard way, but we did learn a lot.

Matthew Whitaker:

But honestly the people that weathered the recession were the people that had rental properties. We were doing a lot of fix and flips and a lot of wholesaling. And if we had had a huge portfolio of rental properties and been disciplined to build that, then we would have been fine through the recession. It was the fact that we hadn't built that passive income. One of the things during the recession, and this is pretty timely for right now, rents did come down, but they did not come down so much that it was scary. It was more like five, maybe 10 or 15% in some areas. But rents just never, you were talking about earlier, rents just never really came down during the recession. And so people were really able to weather the storm. So what a great place to stick your money if things get bearish, which I think it's a possibility in the near future.

Michael Albaum:

That early entrepreneur Gregor Watson, who was the co founder, he had such a great name to his company. It was, 643 was the name of the company. And I never understood what that meant. And I finally asked him about it and he played baseball. And what that is is that's the signal for a double play. Matthew, you play baseball?

Matthew Whitaker:

Yeah. 643 double play.

Michael Albaum:

643 double play. Because you've got the cash flow as well as the appreciation.

Matthew Whitaker:

Yeah. That's awesome. We appreciate you guys coming on. I think Roofstock is an awesome place. I tell you, just what a great, efficient market for buying or selling. So if you're interested in doing that or interested in the Roofstock Academy, how would somebody get started if they wanted to look at the Roofstock Academy?

Michael Albaum:

Check us out at www.roofstockacademy.com. We've got a special promo for people listening to us, education. Do you use that? It's \$100 off of that fee that we talked about. And as Michael said, we kick another \$750 out if you do decide to buy. But an important note is while the material has some Roofstock specific stuff as a marketplace, it's really about real estate investing. If you go through the program, it's going to be valid wherever you do your buying and selling.

Spencer Sutton:

That's great. Well, thank you guys again for your time. We know y'all are busy. And so Tom, Michael, thank you. And so if you're listening to this podcast, make sure you subscribe and like the podcast, give us a review and you can find this podcast anywhere you listen. So, all right guys. Thanks again.

Michael Albaum:

Thanks.

Tom Schneider:

Thank you guys.

Matthew Whitaker:

See you guys.