David Stanford:

Until fairly recent times, the view of data as an asset, that's a very new concept, because what the asset were, were the buildings and they were the things that had meaning. More recently, the information about those assets, the people, the kinds of uses, the patterns, all of that data is really, really powerful. So now, we're on this thing about, "Oh, information is really important now." It's not just who paid the rent. Way, way more than that.

Matt Slepin:

Hi. This is Matt Slepin and welcome to Leading Voices in Real Estate. Today's episode, recorded on October 26th is a conversation with David Stanford, the founder and executive managing director of Real Foundations, a real estate consulting firm that simply put ... helps make real estate companies run better. David's belief in a long term thesis of mind is that as real estate companies become of institutional scale, it is equally the qualities of the operating platform that moves the needle as much as the real estate itself and the more celebrated side, the transactions that built the portfolio. This conversation with David is a deep dive into various aspects of health to add value and basis points to the operating platforms of real estate companies. This reminds me of one of my favorite leading a panel, now, about half dozen years ago. I was on stage with two REIT analyst, my friends Jay Loop and Ross Matridge, in front of a group of REIT HR executives.

I was talking with them about what analyst look for as they assess REITs. Specifically asked Ross how deeply he assess the operating platform versus the real estate assets. He said that when doing property tours, he was not just looking at the real estate but said, he liked to talk to the site employees to see how deeply understanding and aligned they are with a corporate operating model. That was an aha moment for the HR execs, as they saw the importance of the team they hire and the tools and training that they provide. For me, it was a crystallized example of the importance of platform in distinguishing companies in our business. Of course, the importance of operating platform is a driver of the human capital work that we do at Terra Search Partners. A lot of our work is on the transaction side.

As companies seek to climb the curve of sophistication, our work in helping bring in talent to things new school versus old school, bringing more sophisticated platform knowledge likely from a respected competitor is essential. Talent training, technology and culture are all essential components of this platform mindset. I hope that you enjoy the conversation with David. If you have a few extra minutes, stick around at the end of the episode for additional wisdom from David on how he brings business best practices to one of his passions, barbecue, where he's advising what has become one of the rising stars of the Dallas Barbecue scene. As always, thank you for listening to Leading Voices. If you have a few minutes, please remember to follow our podcast on your favorite podcast app and please share your favorite episode with friends and colleagues.

Feel free to email me with comments or suggestions at matt@terrasearchpartners.com. I hope that you enjoy the conversation with David Stanford. Which is David Stanford, welcome to Leading Voices in real estate. This is a conversation I've been looking forward to, which is really a trends and best practices discussion around what I call the real estate enterprise or business platform and just a quick line here, it's long been my assertion off, repeated on Leading Voices that in the real estates business, we focus on deals and finance transactions investments. Now, of equal importance in actual performance that actually also means the quality and depth of the real estate operations and business platforms. I think that's ... and you focus on both sides, we focus on both sides at Terra Search Partners.

That's what I want to talk to you about, is that side of the business that is the culture of the transactions ... I'm sorry, the culture, the people, the process, the improvement. What does that mean for the real estate enterprise going forward? So, I think that's going to be much of our conversation. David, talk to me about, just introduce yourself and introduce Real Foundations so our listeners know who you are.

David Stanford:

David Stanford. I grew up in a small town in Central Texas, about 20,000 people. The place is called Brownwood. My parents are still there, and that's kind of where I learned my values, so some for sure. I've been in real estate sort of advisory consulting management advisory side for 33 years now, believe it or not.

Matt Slepin:

What is Real Foundations? When did you found it? Again, we're going to tell the story of it, but when did you found it and what do you guys do? What position do you play in the real estate firmament?

David Stanford:

We started Real Foundations in June of 2000. This is our 22nd season as Real Foundations, while we do a pretty simple business mission, that has been from day one, the same thing. We help real estate companies run better. We don't help them buy assets. We don't finance things. We're not managing things. We help them run better. Matt, do you remember the BASF commercials of long ago?

Matt Slepin:

Mm-hmm (affirmative).

David Stanford:

We don't make many of the things you buy, we make the things you buy better?

Matt Slepin:

Mm-hmm (affirmative).

David Stanford:

It's kind of where we are. We're in the insides and the guts of operations of very, very large and small real estate platforms across a wide gamut of sectors. We focus extensively only on the built environment.

Matt Slepin:

Got it, and so your thesis is my thesis, that the real estate business platform matter?

David Stanford:

Yeah, it matters a lot. Traditionally, the way kind of real estate has been kept scores, capital, assets and a few leaders that make some of those decisions, and then everything else just kind of happens with everybody else, but I don't really like all that heavy operational stuff. I like to do deals, raise capital. What we focus on, the 95% of the work that we do is what we call the operating platform, which is taking care of all of the work performed by or on behalf of a real estate enterprises. The sourcing of that work, real estate companies has been outsourcing stuff for a long time, and then the final thing is the technology or the tools and information related to that work.

Matt Slepin:

This has only become more important as real estate companies have reached scale. Back before there was scale and there was a world of only merchant builders, maybe it didn't matter that much, but once you have an AUM or you're a REIT, then the existing portfolio and therefore the existing platform to run it is what the needle ... doesn't just move the needle, it is the needle.

David Stanford:

Yes. Yeah, I mean, and that works as small as a few thousand units of multifamily or single family, because it's so operationally intensive. If you can't go and count up all of the hours expended to get the work done by an enterprise, 98% of those hours are spent on operating platform.

Matt Slepin:

Give a sense of the breadth of your company just for a minute, how many consultants do you have? Is this global? Just talk about size, scale, breadth, width.

David Stanford:

So RF is today, October 21, is roughly a little over 400 employees. We are multi country. I don't really call us global yet, because we're in a few places. We've operated in 40 countries, but we have people in multiple countries. We have two primary businesses, advisory, consulting, project based business. We also have a managed services or outsourcing business, where we pick up key pieces of operations, and we perform them for our clients on a multi year contract basis.

Matt Slepin:

Got it, and we're going to talk about the work that you do in stories that become real for everyone, and their stories less about Real Foundations and real stories about what moves the needle in the real estate business. It's funny a couple months ago I was in Boston and it was early in the morning and you and I had an appointment at 8:00 and I was on one of these rent by the hour bicycles on the Charles. I went to the end of the Charles and they sat in a park bench and you told a story of ... you said cap rates are at three, three and a half, that sounds crazy but once you put the operating model on top of it and right-sized the business, automatically that's no three, that's like a five. You could do the math for me, but just talk about that concept because it makes it very, very real.

David Stanford:

I think the example that I was talking about was a mid sized multifamily operator, who was really looking at ... They've made a number of acquisitions, over the years. They did some portfolio deals. They did some asset deals. They bought a couple of entities, but had never really integrated and focused and like slow down, take a step back, and it's like what can we do better across the enterprise. It's kind of like getting a little hard and things seem out of control. So we wrapped all of that into a project called Project 300 and the whole goal of that was 300 basis points, but then a wide margin of improvement. There probably a dozen major initiatives over an 18 month period and people like to keep a score and I think we actually achieved more than 300 basis points, and you can really take that to the bank.

Matt Slepin:

They sure can.

David Stanford:

You do the math on that, yeah, the three and a half cap rate on trailing NOI, it's a lot of value creation from your existing portfolio.

Matt Slepin:

Right.

David Stanford:

Now, we've worked with some people, one of the early single family rental platforms and I remember when ... because the mission at that time, when this was early days of SFR was buy, buy, buy, buy, buy, buy, buy, buy, buy.

Matt Slepin:

Right?

David Stanford:

And we'll figure out operations later. When we started working with them, their NOI margins, across the board, on average were about 50 to 53%. That same portfolio today is operating only four times as large the number of homes. Some of their regions are operating almost 80% NOI Margin. We help stitch together the platform that was able to kind of get them ready for that.

Matt Slepin:

Let's drill down on both of those stories, I'm curious. In a Project 300, did you get that company to industry standard or 100 basis points better than industry standard, if you could guess with that?

David Stanford:

On Project 300, I don't know that we got ... I think they were pretty low to begin with. I think we got them to sort of the lower part of their peer group. If they would have been bolder, we could have gotten probably another 300 basis points.

Matt Slepin:

Right.

David Stanford:

It's hard to change and rewiring oneself while running the business is difficult.

Matt Slepin:

It's interesting. We did work last year with a story of the operator of multifamily and office. One of those family businesses and you know the name. They'd hired in a consultant because they suspected that their multifamily portfolio was operating ineffectively and it was old school, whatever that means. In this particular case, they brought in consultant, at us and they found that 300 ... they may have found that 500 basis points. It was huge. It was a painful transition, particularly in a family business, it had a level of loyalty to very, very long term employees, as well as long term practices. Maybe half the business has that level of improvement ahead of them.

David Stanford:

We see that a lot and one of the things that we're seeing now is we have been in this new space, all the rage, called single family rental.

Matt Slepin:

Right.

David Stanford:

We're seeing a lot of innovation that happened there and there's a heavy use of technology because you don't have on site management. That's created a lot of innovation in that space so they can operate these portfolios at scale. There's a ton of technology innovation coming out of that and now, what we're seeing is that has now going back into the multifamily operating models.

Matt Slepin:

Right.

David Stanford:

They're now doing that and they're some pretty good examples of some public companies that are adopting technology and process to rigor, to move NOI margins by two, 300 basis points on top of sort of world class operations are already.

Matt Slepin:

It's interesting. We've had two different guests, I think maybe three guests from Single Family Rental, in the podcast and A, it's enabled by technology. It wouldn't have happened in the first place. B, it's enabled by the operating platforms of multifamily that were created 20 years ago. Then they went to SFR, they leapfrogged it and now those technologies and operating platform concepts are coming back to multifamily, which is just fascinating.

David Stanford:

It is and now, we are seeing the emergence still early of rental, residential rental platforms, not multifamily, not single family rental, not even home building but all three. Now, we're seeing home builders entering the apartment space and single family rental space. We're seeing single family rental companies become homebuilders.

Matt Slepin:

Right

David Stanford:

And we're seeing multifamily companies do both and trying to figure out how to do this at scale. That's a fascinating period right now.

Matt Slepin:

It is and converge it to the next place, which is that's also emerging in with overnight stay in Airbnb, we're doing work with Central, which is an operating platform and ownership vehicle that combines what we used to call corporate housing. So month stays, furnished apartments, regular apartments, but they want people to ... they're happy for people to get out and go travel because, so then they can rent them for the weekend. Then, also overnight stays all in the same place. So that level of convergence between single family, multi-family hospitality is I'd say, it's long overdue, I never thought it would happen.

David Stanford:

Yeah, what we did is we borrowed from our home building knowledge of interaction ... intimate interaction with customers, in a highly emotional buying process.

Matt Slepin:

Yup.

David Stanford:

Then, our work with large four, 500,000 unit, multifamily operators who had to do things very efficiently and effectively. Then even we borrowed from some of our work in with the corporate occupiers, like large the banks who do lots and lots and lots of small projects, for making space moves, and we basically combined sort of experience and ideas from all three, and we use that along with the operating model, we mapped all those stuff out, and that's what we use for our entree into single family rentals at scale.

Matt Slepin:

Right, and it takes someone looking across the board at an operational platform to see those trends together, and it takes that kind of view into doing it and that kind of experience to pull out the threads from each of those. Talk about the kind of work you do and some stories like this in hospitality, in industrial, retail, other forms of real estate.

David Stanford:

Let me paint the picture of the landscape where we work. So we talked about six sectors and we focus on the built environment. The first is development. People who make spaces where people live, workshop and play. That's horizontal development, vertical development. Most of our development clients are doing more than just development. So, we focus on development. The second is residential, free forms of residential, traditional multifamily and all the different variants, for sale housing, and single family rental. The third sector that we focus on is income producing owner operators, mostly commercial, so office, industrial, retail data centers, different types. The hospitality is in there. We work ... the fourth sector is large service providers, like a JLL or CBRE, that kind of make the industry work.

They provide transaction support and property management facilities management at large scale, a little basis. The fifth sector that we focus on is the capital supplied real estate. So that's the investment but that and equity, we primarily work on the equity side and that's LPs who allocate capital into real estate and then GPs or fund managers, private equity firms, investment managers who gather up that capital, put it to work at scale. Then the last sector is corporate occupiers. So those are the non-real estate companies, Fortune 2000 that actually use all the real estate, they have big estates, and they have big occupancy costs, although those are coming down considerably, post COVID in some respects and I think that the office sectors are going to have a long 10 years, post COVID recovery. So those are the sectors we cover.

Matt Slepin:

To what you said before of helping real estate companies operate better, how much of the place that you came tom and this is so quick was, "Well, let's take the best from each versus let's take the best from the industry as well," and where did their operating platforms, where were they before on the 300 basis point test? Where are they now on a 300 basis point test or where you're going to help them get into the future in that?

David Stanford:

If you pay attention to mergers, there's always some number that's a synergy number and a lot part of that synergy number is G and A sort of admin cost and leadership salaries. So, that's sort of the easy part. Let the investment bankers make up in the back room somewhere on a wall and then present it to us. The real juice and something like that will be proven out over time but you create more scale, you take this one time look and intensively how you actually operate on both sides? You pick and choose sort of the best practices from each, really the industry best practices come later because it's so accelerated.

Matt Slepin:

Right.

David Stanford:

We have over-achieved the synergy target, at least on a run rate basis by probably 30, 40%. We believe there's a lot more to go and we're still very early in the process.

Matt Slepin:

So let's mash up a couple of other thoughts here. One is you said a lot of your work is psychology, and people are resistant to change. So, let's talk about that within the context of a merger, which is normally you need someone else to help you figure this out, and then, also, post merger in that case, we're better too, just a normal company that's above or below the 300 basis point curve, how do you get people to change and adopt this stuff?

David Stanford:

Well, we sell ideas all the time. We're in the business of selling ideas and creating stories, where we transition those ideas from ... our ideas or the industry ideas, and articulate those with a value proposition where people get excited about them and get behind them. So there's an art to doing that. A lot of this is about perspective. So, when you're busy everyday, you're probably understaffed or sort of barely appropriately staffed, you're focused on the day to day. You got customers and tenants coming at you. You're looking at onboarding new deals, no one has time to sit back and reflect on improving the business and oftentimes, I tell the story about what Role Foundations is, is just like a different form of a plumber. You can think of us with our sort of name badge on the left side of our work shirts.

The sort of the story goes like this, Matt. You come in from vacation, a week's vacation and you come into the house late at night, your kids are screaming. You open the door, you walk down the hallway and you're met with water on the floor, squish, squish, squish. At that very moment, you have a choice to make. You become the consultant or you hire somebody with the right tools, resources and experience to solve the hot water heater problem because you might get hurt. That's a lot of the value that we provide. We have perspective. We have seen lots of these problems before, we have the tools in our toolkit. It's our full time job, it's not a part time job.

Matt Slepin:

Right.

David Stanford:

We know how to deploy the technology to assist in the right way.

Matt Slepin:

I think you're being unfair to yourself though. So I think of the plumber, I think that a guy like under the sink, I think the crack thing, plumber, sorry guys but I also think-

David Stanford:

We get down and dirty like that in lots of the operation.

Matt Slepin:

I know you do. So that's only half of it though because that's when the sink is leaking and it's overflowed and you're in trouble, but also companies come to you when things are great and they want to make it greater. People come to you when it's time to do a transition of a system. People come to you when they're looking of what's ahead and they don't know even what it is. So you're a psychologist, you're a plumber, you're a futurist. Let's put all those together.

David Stanford:

Yeah. So here's probably good story for that. Since 2014, I've been talking about, in the multifamily ... or the rental space, residential rental space, the concept of an airplane test. Very simple and it's based on the theory of the consumerization of the residential rental living process, Amazon has taught everyone to raise their expectation of a consumer interaction. I can go to a place, order something, it'll be here in a few hours. You're going to communicate with me the whole time. I don't have to talk to him and ... So they're playing tests, pretty simple. It is the concept of getting on an airplane with a rather poor internet connection, get up in the sky, you need a place to instead of an Airbnb, like our discussion before, we got on or get on a hotel, I need a place to stay.

So in one transaction, with a very thin connection from 30,000 feet, I can find, locate, apply far, get screened, get qualified, do my application fees, set my rent up, sign my lease, get my digital key, order my furniture and have a key ... a digital key that when I land, I can go through the access controls from my key on my phone.

Matt Slepin:

Right.

David Stanford:

And go sleep there at night, I can do that in a single transaction, with no human. If you think about that from an operating cost standpoint, and decreasing the noise and friction from that, that is something that has now been accelerated by COVID by 10 years and we're seeing a lot of folks now starting to ask the question, what can I do differently? What should I do differently? I have a hard time hiring people and keeping people. We have a sort of a staffing crisis, which is what you work on all the time.

Matt Slepin:

Yeah.

David Stanford:

So how can I do the same or more work, have a better customer experience with less friction and do that with the appropriate use of technology. Technology is not a panacea. It's not magic, but it can certainly enable that. So we're starting to see companies come to us and say, "How do you help us with all that?"

Matt Slepin:

Right.

David Stanford:

Those are fun conversations, you got to unpack them, really figure out what exactly the scope of that would look like, what their outcomes they really need to be but you connect that to the ... sort of earlier in our conversation about, wide margin improvement? It's kind of hard to be against something like that, that produces real value creation.

Matt Slepin:

Absolutely, and you first had that airplane test concept in 2013, so you're an early thinker.

David Stanford:

2014, there was a guy from the Inman Group, on sort of the homebuilding side. He had something similar. I didn't know about this until just the other day but he had something called the latte vision with homebuilding, it's like, I want to be able to buy a house as easy it is ordering a latte at Starbucks. I think that's a very big simplification because of logistics involved and color selections and the emotion of buying a house and then connecting that to Trade Contractor Network, it's much more difficult but we're seeing it now, on the humbling side. We're seeing the Buy Now buttons.

Matt Slepin:

Absolutely and it's been ... in COVID accelerated all of those things together and you're seeing it in office because I can go get ... we're an industrious space, so we don't have furniture to lug around no more. I don't have files to lug around.

David Stanford:

You got a two page lease. You've got a 98 Page lease, that's worked on by lawyers for six weeks on each side.

Matt Slepin:

Yeah, so now let's talk about the democratization of this within the industry. Are all of these things only really affordable to large companies or does technology democratize that?

David Stanford:

It does to a certain extent. We certainly see smaller, more nimble, agile companies that are emerging, that have three or 4000 homes or units, who can hit in the high to mid 70s, high margin because from the ground up, they were paying close attention to the platform, and how they would operate, how they would source differently and how they would deploy technology from the very beginning. If you're free and clear from all of the legacy thinking and the legacy processes, and the legacy technology and you deploy sort of smartly the right operating model, that's available for anyone.

Matt Slepin:

It takes a company knowing they're going to be around because the first thing you have to do is get assets, you think and you have to get enough assets, and have made enough money to then afford to do this, but what you're suggesting is maybe then it's a little bit too late in your pathway, in your culture. It's a lot harder.

David Stanford:

It doesn't get any easier.

Matt Slepin:

Although, I see that companies plateau, I was talking to someone yesterday about, they're ready to get a real controller instead of the bookkeeper, the father who founded the company 25 years ago did, someone out there is going to be laughing at this because they listen to the podcast, but companies plateau. They get to the next level, that next level then they're ready for a super controller, but then at that next level, they're going to be ready for a real CFO, and maybe the super controller could grow to that person but oftentimes you're leapfrogging the teams that you are able to afford and build at a certain time of scale. Any comments about how that works with your clients and the stories you're telling?

David Stanford:

You get to some point. You plateau. It becomes a little bit hard and convoluted and those that have the, I guess, the willpower and fortitude to take a step back, do a little bit of navel gazing and take action now versus when we have 25 billion of AUM, our advice to companies is do it now because this is going to get twice as hard going forward. It is not easier to change later. It's easier to change when you're smaller, and improve the operations and then focus on continuously improving that over time. There's not been a big recognized need for R and D and innovation in the real estate space up until maybe the last two and a half, three years. Now, we see in clients, a lot of folks with the Chief Innovation Officer, something who report to the CEO, so that's all good but the issue with that is they're usually an army of one.

So their mission is to go transform everything and make innovation happen, but then they're facing the entrenched way of doing business and they're kind of the cool kid with the cool mission, and everybody else has to run the day to day. So that that gets difficult, I think we have a solution for that, is like, we have a workforce that is in the business doing that kind of innovation and transformation work all the time. It's good to see that out there and then we hadn't touched on this yet, but there's the ... this thing called prop tech, which we're in the third version of, since we started ... realestate.com was back in the late 90s, early 2000s. We were part of that back at DOI when we were there. Now, the last, I think three years, three and a half, four years, there's been about 50 plus billion maybe it's approaching 60 billion of capital deployed to property meets technology.

There's roughly 9000 and counting prop tech firms, way too many, and then there's another 10,000 Fintech, Insurtech, marketing tech, horizontal application. So if you add that together, it's 20,000 firms, each of the listeners that were listening to this, they're probably tired of getting those calls right now. It's confusing. I don't know who to choose. So, there's some real innovation out there but it's hard to sift through and figure out how to apply some of those things to your environment. The thing that's constant in a change like that is the work, the work on change dramatically year over year, it's pretty consistent and if you focus on the work, and looking at applying technology to the work, and where you get the biggest bang for the buck, back to the model of the platform, that work map is very consistent and you can use that to look at these different solutions, and stack them up and figure out where you might get the best bang and where you should invest.

Matt Slepin:

Right, and talk about that work, how you help make sense of the 10,000, prop tech companies for clients and then the role maybe. Usually, sometimes there's a chief innovation officer but there's usually a chief technology officer, and they have a role. If that role is a solo, they're in trouble. They're not embedded in the company and it's COO and the head of property management or the head of development on there, parts of it care just as much about new ideas, then you're in trouble, but I would think that the chief information officer is oftentimes your partner in crime in bringing you in and then helping this stuff get done in a company. Talk about that role and how that's evolved.

David Stanford:

So one comment on the chief technology officer, chief information officer, until fairly recent times, the view of data as an asset inside the real estate business, that's a very new concept, because what the assets were, were the buildings and they were the things that had meaning. More recently, the information about those assets, the people, the kinds of uses, the patterns, what the buildings can and will tell you about the occupancy, what the people are doing, how are they behaving inside of stores, all of that data is really, really powerful. So now we're on this thing about, "Oh, information is really important now." It's not just who paid the who paid the rent. Way, way more than that. Now, we're seeing that have a dramatic impact on the information provisioning or technology function.

For the last 25 years, the charge in the scope of that function has really been on the back office and the medical office. Accounting for things, making sure that kind of the basic operations were relatively consistent in keeping score. Until the recent past, the technology or information function in large property companies has not been tasked with enabling the technology in the property. They haven't been snuffed for it, but now, that's coming at the technology function, like a huge snowball, rolling downhill. I don't think companies have realized that they're going to have to step up to that, to really get the value of all of that data.

Matt Slepin:

Is it staffing up or is it staffing differently, particularly at the site level?

David Stanford:

You have to have different skills and capabilities to be able to deal with that, because enabling things inside of a building is very different than putting on a property management system.

Matt Slepin:

Right?

David Stanford:

So, the expectations, capabilities and the skill set differences are real.

Matt Slepin:

I keep interrupting you, but I have a question about that. If you have different people at the site level, because they have to be able to deal with that in addition to the other property management stuff they did and if that requires a more sophisticated person with more training, because the business platform is more unique to your company, does that make turnover go down and stickier, you're paying people more but they're probably going to be stickier because they can't just go to the other company because the other company has a different platform to use in that business, and that's a really transformational difference because I know in the apartment business, it's like 50% turnover or 40% turnover year over year at the site level.

David Stanford:

Yeah, we're not really seeing that yet but what we are seeing ... and this is kind of a fine line here, the enablement of information provisioning from the assets, like the assets if you get them all hooked up, it doesn't require a bunch of people to gather that data. There's sensors, there's all these building systems, they're telling you lots of things. So the enablement and sort of the monitoring of that is key, which is usually, like historically not been a function of corporate IT inside of real estate. Now, increasingly, it is becoming that. So, interestingly, Matt what that's doing is enabling centralization or sourcing over distance, and we're seeing impacts of on-site staffing reduction. One of the public rates is pretty transparent about this and the headcount year over year numbers, site level headcount numbers are 20 plus percent down on site.

So what they're able to do is kind of run the business with fewer people, pull a bunch of administrative kind of task work off and then, this also fits into the new world that we're living in, of working over distance and some of that work does not require being, elbow to elbow with other people in that office to get that work done. So we are seeing sort of slightly higher retention rates with that kind of more satisfactory work being performed, kind of more analytical work versus the daily grind of just doing tasks management.

Matt Slepin:

Yeah, I would think it used to be like a maintenance person, a site would be totally interchangeable, one company to another 10, 15 years ago, but once you come into these companies with that level of differentiation around how they operate the properties, I'm just thinking it's a different model.

David Stanford:

Yeah, it is but right now, it's really hard to hire a maintenance person.

Matt Slepin:

Right.

David Stanford:

We have clients with 30% vacancies, and it is increasingly difficult to hire, we're having less people into the vocational work, we don't have as much immigration, I don't want to get political here, but the workforce after COVID is disappearing. It is going to take a while to rebuild that. So, a large part of this will be about how to how do you deploy technology? How do you become more efficient? How do you work across multiple sites? How do you optimize your work and your routes so you can get more accomplished during an eight hour shift?

Matt Slepin:

Right? I've never heard people brag that Amazon is a wonderful place to work at the warehouse. So if the industry is losing people to Amazon, then that's a low bar, but it is an ongoing issue, but the question is who wants to build a career in, let's say, apartment management or senior housing management, right? And what's that look like and what's the meaning of that career and who would step into it and stay with it, and it's incumbent upon these different sectors, apartments, co-working spaces, seniors housing for those industries, to be able to attract people.

David Stanford:

Yeah, you touched on something, it's a kind of a sore spot for me. So now, there are literally dozens, maybe even hundreds of hotel management schools.

Matt Slepin:

Right.

David Stanford:

In the US and through the world, and there were three hoteliers and after the First World War they got together and said, "All these people are coming back, people are going to take trips." We need to teach people how to be hotel manager.

Matt Slepin:

Right.

David Stanford:

So they educated ... I mean, they started this whole education process. I've been sort of on this kick to like discover how many residential property management school programs there are. There might be a dozen in the United States and not very many and we are not as an industry, doing a good job of presenting this say professional, long term career path, but with this technology advancement and sort of lifting the administrative right tasks off of people, allowing them to do more interesting analytical work and the consumerization, kind of becoming a consumer product company, versus a company that sells boxes for tenants or problems and they just complain all the time, that's a mindset difference.

Matt Slepin:

Yup.

David Stanford:

I think if we can take that and do something with that with young people, and sell it differently and then work that into universities, that's going to be a big thing. My alma mater, Baylor, I met the new dean, six weeks ago and we don't really have much of a real estate program and that was my number one charge. I was like, this biggest asset class in the world, I ripped off a bunch of statistics, right? It's like, we got people entering the workforce from our university and we're not teaching any of them the skills that are required in the biggest industry in the world.

Matt Slepin:

Exactly.

David Stanford:

So we're going to go do something about that.

Matt Slepin:

One idea to that, I hadn't thought about this before is you merge the hotel schools because not everyone is jumping to hospitality anymore, because it's such a cyclical industry. It should be hospitality and apartment management and seniors housing management.

David Stanford:

Well, because of the mindset.

Matt Slepin:

Right.

David Stanford:

The mindset is so right. We tried to do this. We had a sort of stat with large REIT in the late 90s and one of the ideas was to go and take GMs from hotels, and make them property managers. We started that and had some success and other business change, but we're kind of back to that, because the mindset is not, "Hey, I'm trying to get this like spreadsheet done for somebody up in corporate and I'm doing the weekly traffic analysis manually on Excel or on pencil." You're coming in to my office and you're bugging me, what do you want, versus hospitality mindset, how can I help make you stay more comfortable.

Matt Slepin:

Right.

David Stanford:

There is going to be a big change in that mindset and I love the idea of going to these hotel schools and saying, "Let's cross train some folks."

Matt Slepin:

Yeah.

David Stanford:

Because at least I have a friend that went to a hotel management school and I told him, I was like, "You know that hotels don't ever close, but they don't ever, ever close."

Matt Slepin:

Right.

David Stanford:

At least on most multifamily sites and residential sites, people sleep and they're not open 24 hours a day. I think there's an opportunity there.

Matt Slepin:

It's like my friend from college who went into anesthesiology, instead of emergency medicine, because you get to sleep at night, it's a predictable business, right? So maybe the apartment is ... hey, one last question before we talk to the roots of real foundations and the last question is environment and sustainability. So are you involved in that with real estate companies, where do we grade on that and we have a much, much, much, much better job that we must do.

David Stanford:

Lots of people have heard this. It's real estate's biggest user, I've ever seen in the world. We have been in that sort of sustainability enablement, kind of energy, social sort of measurement since the ... before it was cool, before the US Green Building Council was around and it was at the time, largely focused on energy management and reporting and then, I got involved, I got tapped by Nareit to be a judge, in their Leader in the Light Series. I knew what that was about. It was about the energy star rating game, and I didn't really agree with the central thesis of that. So when Nareit approached me, I was like, "I'll be happy to do it, but we need to change this to look at the portfolio," not six buildings, they were the best buildings. We need to look at that across the universe for REITs because this needs to be just a business as usual thing.

It doesn't need to be that different. So the first two years that we kind of struggled, trying to figure out how you do that, how to keep score and luckily for us, this is 2019 timeframe thing. The global real estate sustainability benchmarking thing Crosby came out and I was able to talk Nareit into adopting that, is the scoring methodology and it was more sort of across the portfolio. Certainly, it wasn't perfect but it was applicable to all different REITs and it measured more than just energy, and it measured the whole portfolio performance and that was kind of a watershed moment. That was early 2010 to 2013 or '14 and then, the ESG thing kind of lost a little bit of, winded in the sails for a few years.

Matt Slepin:

Right.

David Stanford:

Now, with this administration, it is back in full force, we've never heard so many conversations about this, and it's much bigger than environmental. The other two, social and governance are very big, certainly harder to measure. Real estate has always been fairly good, at least in institutional real estate, on the governance because they have very, very sophisticated capital sources above them, demanding good governance and we're seeing a lot more adoption, and we have a couple of clients who are really good at looking at ... from a due diligence standpoint, looking at the cost to run a building based on what they know, how they see their portfolio operating and they can afford to pay just a little slight premium on a cap rate basis to buy a building where they know they can improve and target those operations, make them run better and get the sustainability credit as well, but we're early days.

Matt Slepin:

Early days and moving quickly. It shocks me with how little people look at that when they're either buying, holding, or then selling on that subject because real estate, traditionally, people get in and out, not traditionally. A quarter of the business is in and out, so you don't care as much in the same way. You don't get paid-

David Stanford:

Well, yeah, in order to get capital now, if you can't answer the ESG thing, heads up and show real progress, it's hard to get meetings, especially with some of the European folks.

Matt Slepin:

I think it's true, but I hate the convergence of ESG, because I want each of them to be judged separately and with value, right? So I want to change subject and talk about you and I want to hear how Real Foundations was started, but before that you are, believe it or not, doing 105 episodes of leading voices. You are the first person from whose lips were the words, Kenneth Leventhal uttered. So I'm just curious to spend a few minutes on that before you talk about founding your own company.

David Stanford:

Well, it was probably never my vision to start my own company from the beginning. I took one real estate class at Baylor. I took it from the guy who taught my mom real estate class at Baylor, the same guy.

Matt Slepin:

Well.

David Stanford:

I didn't learn a lot, but he was a dear man. No, I didn't have any real real estate training, so whenever I went to interview, I talked with the big eight at the time, because my mom told me, I had to get an accounting degree or she would disown me. Then, I went to Montana to became a rancher and a trout fisherman.

Matt Slepin:

Right.

David Stanford:

Then, I came back, so I interviewed with some of the big eight at the time and that was interesting and they're going to do oil and gas work and this and that, but it wasn't terribly tangible. I talked to these people from Kenneth Leventhal and immediately I could feel a sense of passion for the built environment and it just identified with me, and then, walking around out of that interview at the career placement office at Baylor forever changed my view of the physical environment. I looked around Baylor, there was all this real estate, like, "Oh, it's all around me all the time. That's my career." It was that transformational. It was great, because our assets are always very, very visible. They're not pieces of paper. They're very tangible, so I started Leventhal.

Leventhal had made a name for itself as a kind of a workout restructuring place doing real tricky debt restructuring and kind of workouts in the late 80s, early 90s, then transitioned into closing down banks and SNLs during that crisis period, then doing a lot of work for the RTC on packaging up all these broken deals into this thing called securitization, and along the way, I was able to learn quite a bit about how to apply technology to large problem sets. It kept running with that through my career, and there are a number of us here at Real Foundations who started our careers at that place. We pay homage to them in everything that we do. Our key tenants of our business are work hard, tell the truth, do what you say you're going to do and that was very much the sort of the mindset of Leventhal. Our two conference rooms in Dallas are named Leventhal and Ross.

Matt Slepin:

Stan.

David Stanford:

Then, we have others, Dale Reese, a dear friend of mine, she were in the Real Estate Group after Stan retired. It was a great place to learn. You only learn one thing, you learned a bunch about real estate, if it wasn't for you, you didn't want to stay there. So that's how we learned our passion, we try to keep that up and in the mid 90s, I think it was '95, Ernst and Young bought Leventhal, because they wanted to go deep in an industry and that was really good for us, because Ernst and Young had a professional management consulting practice and we've learned a lot. We took a lot out of that and then kind of getting to the real foundation story. In the late 90s, after Enron, the SEC was disassociating, large consulting organizations with their audit brethren and forcing them to kind of divest right. EY decided to sell the consulting group to Capgemini, and we didn't want to do that. That was a partner meeting in November of '99.

It's announced and we had four partners in that group, and we all found ourselves out in the back hallway of the meeting there in Orlando, planning our escape. We hadn't planned to start a company, but it was ... sort of the opportunity was presented, and that was the time of the early realestate.com era and we could have done something like that. We were involved with some of those startups, we created a couple of startups at the time, but we liked what we did. So we decided to keep doing that. We went out and raised a little bit of capital in the spring of 2000 and got ourselves in business in June, and we've survived three kind of scary time periods, three cycles.

Matt Slepin:

Right.

David Stanford:

We're going strong now.

Matt Slepin:

Sure and when was it at KL that you kind of move from being an accounting guy to being a consulting guy about making real estate companies operate great and then-

David Stanford:

Yeah, that was in those kind of the early mid 90s.

Matt Slepin:

Okay.

David Stanford:

So with those very, very large kind of RTC projects, we had to do due diligence on 6000 non-performing loans.

Matt Slepin:

Right.

David Stanford:

If you think about the technology set at the time, it was pretty hard to do. So I learned a lot about solving complex problems and applying technology to large data sets in real estate from that and that was just like pure like breakout the book and figure it out, because I don't want anybody there to teach us.

Matt Slepin:

Right.

David Stanford:

After the RTC that was now the REIT 2.0 timeframe, and the invention of a financial term called FFO which is very favorable for the REIT industry and helped it take off, and from that time in the like probably '92 to '93, we started building a business to advise companies on guess what, their operating platform.

Matt Slepin:

Right.

David Stanford:

Because they had to behave like other well-governed institutional enterprises competing for capital in the public markets.

Matt Slepin:

Got it.

David Stanford:

They had to look, act and feel like a real company with enterprise operations, with good processes, with good reporting. That's how we built our management consulting practice.

Matt Slepin:

Got it and then, that's the business that you're in today because that's what you guys do

David Stanford:

That plus the managed services business, which we've been growing for about I don't know, 15 years.

Matt Slepin:

We're going to wrap up in a few minutes, so this gives you half an elevator speech about the managed service business.

David Stanford:

That's relatively simple. The real estate world, especially homebuilders, they're consultant outsources. Homebuilders actually don't build home. They're sales and marketing company. They outsource the building of homes to all their contractors, but because of technology limitations, and because of the fact that people were generally located in one place all doing work, lots of back office-ish things like accounts payable, like accounts receivable, like accounting, like lease administration, have always just ... had to be inside the company because technology couldn't work over borders.

Matt Slepin:

Right.

David Stanford:

There was is no concept of doing that with specialist. So, as you look through the work map, over time, there are lots of things, really important things like raising capital, like development leasing, like development. They have started to become outsourced to experts, but the kind of day to day administration stuff, there was no outsource so far. So we got into that business, because at the request of our clients, primarily around technology and we used to do a lot of work with JD Edwards doing projects where we would replace the financial and operational system with JD Edwards and they had these, people called CNC people, they were experts and it was hard to keep them, to kind of tune in the system. So our clients started demanding of us. It was like you do this, you helped us put this in, and I've hired four guys to try to do this. None of them want to stay because there's no career path. That was how we entered that. Today, we've evolved that to it's about ... it's approaching 40% of our business.

Matt Slepin:

Right, recurring revenue. Good thing.

David Stanford:

Yeah, we didn't know about that when started. The audit guys never really told us that that was the magic to the accounting business, because we were hunt and kill. We love to do projects, but this revenue that comes back every year, it's pretty good.

Matt Slepin:

Yeah.

David Stanford:

We've been building that for a while and that's a good business. The other thing, Matt, that's about our business, today, we're probably 30% of our revenues are outside the United States. I think if you look at the distribution of real estate, institutional real estate around the firm, around the world, over time, we're going to probably get that to be the inverse. So 70% of our revenue, probably way after my time, should come from outside of the United States, because that's where the real estate is, 70% of it is outside of the United States and I think over time, we'll probably going to grow the managed services business, and it will surpass what we'll be doing at consulting.

Matt Slepin:

Yeah. It better will. One last question about your business, I'm just curious about this is, and you have great passion for what you do as I do for what I do, but it's interesting, you're always a little bit on the outside. You get to see the breadth of the world, which is really cool and advise people about the breadth of the world. What kind of person does it take? What kind of weirdo does it take to love to do that versus to be embedded in a company day to day?

David Stanford:

Problem Solver, with personality. As a kid I like, like taking things apart and putting them back together and learning why and asking lots of questions. I think that in just general curiosity is something that is really required to excel in this profession. That's something that I wish we had more of, curiosity, asking questions, understanding ... like don't accept things as they are. How can we improve this, always how can we improve that, and just being naturally curious, or very good kind of superpowers at consulting.

Matt Slepin:

I think it's interesting. I'm super curious. I'm not curious about how to do things differently or better, necessarily as you are. I wish I had that skill. I don't question reality as much, but I'm so curious about what reality is and people's reality. So it's interesting. Okay, last question on leading voices, is always the same, which is what's your advice for young person getting into the business of the built environment?

David Stanford:

So one, I think it's a very good time. There's a lot of interesting work. It's being recognized as an increasingly important asset class around the world. There's lots of capital coming to it. So lots of the best and brightest are coming here. I think, early in your career, you want to learn as much as you can, read everything you can, there's this thing called Google. You can learn almost anything, and if you're a voracious learner, you're not satisfied with the status quo and you want to work hard. It is a terrific business and I think the other thing that really matters is passion for something. Some people don't really have a passion for this business, that's fine. They come here they learn that, go somewhere else where they do have passion. We really want to see passion, and you don't have to be equally passionate at corporate real estate, in homebuilding, you don't have to be an expert in all that, it's really hard to do.

That's kind of what we're looking for. Early in one's career. We want to work hard, we want to understand things, ask questions and just get in and make things happen and also be good communicators, and good storytellers.

Matt Slepin:

Storytellers. Otherwise, it's not real, right, which is what you did today, so thank you.

David Stanford:

Well, thank you, Matt. This is ... Hopefully this has been a little bit helpful for some of your listeners, I know that I love what I do. I can't think of doing anything else and I appreciate you having me. I've been a fan of your podcast for a long time.

Matt Slepin:

Thank you. Well, we're mutual fans, so I'm thrilled to have you on the show.

David Stanford:

One thing I would like is just to thank everyone at Real Foundations because this is certainly not about me. When we started this, we made this a firm that will outlive the founders. This is about all the hard work and dedication from the people that have been here, and I wanted to express my thanks and admiration for all of what you do, and I really appreciate it.

Matt Slepin:

Thank you for listening into Leading Voices, and I hope that you enjoyed today's episode. I have a request. If you enjoyed the episode and found it to be valuable, please share it with a friend or two. If they're podcast weary, take their smartphone in your hand and subscribe for them and teach them to listen. You've changed their life. Seriously. Thanks for listening and keep in touch. You know you can reach me at matt@terrasearchpartners.com. See you next time. Who do we have on your hat?

David Stanford:

Goldie's barbecue.

Matt Slepin:

Where's Goldie's barbecue.

David Stanford:

As of last Monday, it's in South Fort Worth and I helped these guys get open. They were just named on the cover of Texas Monthly Barbecue List, top 50, they were number one.

Matt Slepin:

Nice.

David Stanford:

They've been open since early 2020. The great story it's five guys who went to school together in Arlington and then I worked at all these great barbecue places in Central Texas learning their craft and came together, and I caught him kind of at the right time. Hot barbecue has been a big hobby of mine for a long time. I've got a bunch of smoking equipment, like I could have a barbecue restaurant but I never will and they've got the top spot and it completely transformed their business already in a big way.

Matt Slepin:

Because they got the top spot, what makes the top spot versus number 10, since you're a barbecue aficionado?

David Stanford:

I don't really understand the scoring, kind of the methodology that they have. The top 50 is really hard to be on, and the difference is food, sides, experience and just general sort of ambience and whether it's a joiner, whether it's to clean and all that kind of stuff.

Matt Slepin:

Too clean doesn't work, right?

David Stanford:

Not for barbecue.

Matt Slepin:

No, it's got to feel funky and fun and interesting and authentic and pristine and antiseptic that would not ...