

Developing a Niche

To gain the depth of knowledge essential to becoming successful, it is important for investors to develop a focus. Taking the time to build a deep level of understanding in a specific area is integral to long-term success. Once a particular market is mastered, the investor can move on to additional areas using the same in-depth approach. This niche approach is iterative. A single niche is insufficient to expand an investment portfolio indefinitely. The market changes and the investor must adjust to new realities and find niches that work with the new market conditions.

We have iterated our business model by moving from one niche to another. Initially, we began investing in residential real estate and understanding the nuances of selling and renting renovated properties. This niche expertise came from repeating the acquisition, improvement, renting and resale model over and over again. Each time we purchased an asset, we identified the nuances of the acquisition process that made the buy successful. During each renovation, we tracked the timing and cost associated with each repair. Learning what repairs cost in general and then diving more specifically into repair costing at a granular level allowed us to develop expertise on renovation cost control. We didn't do this on just one project, but on dozens. After understanding acquisition methods and costs in detail, we were able to take a top-level view and find out what models work and what "rules of thumb" could be used to make pricing determinations quickly and accurately.

Taking our investment model to another level required understanding the niche of residential renting and property management. We rented to individuals with high credit scores, low credit scores, and government subsidies. The more we rented properties out and maintained landlord/tenant relationships, the more we realized that there is a lot of subtlety to having an efficient landlord/tenant relationship. The source of income or credit score turned out to be a lesser determinate of the success of a lease than the relationship built with a tenant. A tenant that is respected and has immediate resolution to physical problems with their property is much more likely to be retained. A tenant that feels comfortable enough to explain why their rent is behind and what the plan is to catch up is far more likely to get back on track than a tenant where communication is limited. How you communicate with a tenant and how you handle problems is not written in a procedure manual anywhere. Learning these methods requires combining industry best practices and figuring out how your organization can deliver them. This is organization-specific and a niche that we became expert in executing. Tracking performance in any niche is essential. In property management, tracking retention rates, vacancy rates, rent increases, and property maintenance expenses is needed in order to improve performance results.

When we switched our business focus to selling bank real estate owned (REO) properties, we had a crash course in developing niche expertise. We expanded quickly and put together a team with a depth of expertise that allowed us to be a major regional player. We built on our property management knowledge and quickly figured out how to expand and support hundreds of properties simultaneously. We determined what the fastest way was to get listings onboarded and to support both buyers and sellers. There were a lot of niche subtleties; however, if you do something ten hours every day for three years, you can become an expert at it. You can take that niche knowledge and then expand on it.

Our niche development for the last five years is in the hard money lending space. It is an extension of all of our prior niche learning. We are able to share our knowledge of the flipping and selling space with other investors. In the process of providing loans, we have developed niche expertise in collections and servicing. Our work in this space isn't limited to lending. Accounting and process control are essential to making hard money lending work. There is no one place to learn how to integrate best practices into our model. We are continuously evaluating the environment, looking for the best vendors to support us, and seeking the best practices to institute. Our team is growing and we are determining which metrics are best used to measure our growth and success in this space. When you are building a team and hiring professionals to support your organization, you want to be sure to bring on teams in areas where their niche expertise is also refined.