EPISODE 371

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[00:00:24] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Dovid Preil. Thanks for being on the show, Dovid.

[00:00:31] DP: Thanks for having me on the show, Whitney.

[00:00:33] WS: I'm honored to have you here, all the way from Israel. Thank you again for staying up late and making this happen. But a little about Dovid, he's a principal at YDLP Investment Group. He has sourced over $3.5 million in equity from mostly smaller investors for US commercial real estate investments. Created an online course to educate people to invest in commercial real estate, as well as regular educational newsletter.

So, Dovid, thank you again for your time and being willing to push through and stay up and make this happen. So, give the listeners a little more about who you are and what your focus is.

[00:01:08] DP: So just as a background, I started off in Israel as a mortgage broker for residential mortgages, people buying homes. And the way it operates here is very difficult to obtain a mortgage. Cost of housing relative to income here also I think is very high. So I came across a very large population that had money, anywhere from 50 to 200,000 dollars, and they weren't able to do anything with it.

So, to make a long story short, I found a partner who has 13 years' experience as an analyst. So, he's underwritten over $180 million in purchases. And we teamed up and we were working with this crowd to help them invest their money into US commercial real estate in a diversified way. So, we take small minimums and that we encourage people to spread their money around a number of deals. In the course of doing this, we've expanded to young professionals in the US. People also who have money and they were accredited, but not necessarily able to enter into deals at the 100,000 or 250,000 or 500,000-dollar mark that oftentimes minimums are set at, and they're able to come into our deals at a comfortable level.

[00:02:07] WS: Wow, could you give us maybe an example of a deal that you're working on, where it involved investors in the US or investors in Israel that had to go back and forth.

[00:02:15] DP: I don't even go back and forth. The way we structure our deals is we'll create – This is how we get these larger sponsors to work with us, work with our investors is we create an LLC for every deal that we do and for all of – Just for our investors.

[00:02:28] WS: In the States?

[00:02:29] DP: Yeah. It's a US LLC. Everything is done Stateside. And the investors come into that LLC. Then that LLC enters a deal as a single investor. So that kind of shields the sponsor, the GP from having to deal with all the complications of the smaller investors and of the foreign investors. And in terms of dealing with foreign investors, there are a couple different scenarios that play out. There's obviously the scenario of the investor is not a US citizen at all. In which case, you have to get the right tax form and you have to withhold and you have to – It has an impact on your marketing as well, because you have to inform them that you're marketing a deal, 8, 9, 10% cash on cash. "But, hey, wait a minute." There's like I think 36, 39% withholding on that money, and then you get it back when you file taxes the next year.

So, I've spoken with different people about this. I kind of sell it as the first either returns are lower. Then the next year, you get a bonus at the end. So, it only kind of impacts the first year. By the second year, you're getting back your refund on the first year. I have one person I spoke to. He says he sells it as basically you get paid in five quarters. You get like the four payments over the year and then you get your fifth quarter after the year. So. you have to package that and prepare people for it.

The most complicated situation we encounter is when you have somebody who's a US citizen who's living abroad who doesn't even realize he's a citizen or doesn't to think about a kid of US parents who's living abroad technically has to file taxes in the US, but never has really been doing that. And all of a sudden, if they're going to come into a deal, that's going to put them on the IRS's radar.

Now, I'm not telling people to evade, not evade what to do, but I have to just inform them. This is the ramifications. Do with it what you will. He's got to be aware of how all these pieces fit together, not just for the singular investment but for the entire broader picture.

[00:04:03] WS: See now. That is a scenario that I wouldn't have even thought of. So, a US citizen that's living abroad, maybe they've lived abroad, you mean, like their whole life.

[00:04:11] DP: Yes. I have people, their parents have moved here 30, 40, 50 years ago. They were born here. They don't even speak English, but they have a Social Security number.

[00:04:18] WS: Wow! Okay.

[00:04:19] DP: They don't even know they have to file in the US. And I start talking about it, and then they realize, "Hey! If you go into this deal, all of a sudden you got to start filing and reporting for taxes all the money you earn," which legally is what they have to do. I tell them, "This is what you legally have to do." But I'm not getting involved beyond that point.

[00:04:35] WS: That's awesome. And tell me, are there any special or specific things that you do to notify these investors of these things? So, I mean, just like having withhold the taxes and things like that or anything you do out of the norm to make sure they're aware of these things?

[00:04:48] DP: Yeah. Anything that's going to impact their cash flow or anything that's going to impact – Any time a first-time investor comes on, their first question after they agreed to go into a deal or sometimes even before it is, "what happens now. What's the process now?"

So, for US investors simply, you wire the money. I'll send you the form. Just sign everything and you're done. With a first-time foreign investor, you have to – "Okay, you got to get yourself a tax identification number, and you're probably going to find yourself an accountant to kind of handle these situations, and you're going to be filing taxes at least on the US-earned income every year." You have to get them set up with that. What used to be, you can open bank accounts for people from abroad. Now, it's virtually impossible. So, we just do direct transfers into their accounts in Israel. So, you just have to be aware of what's going to be going. That's how it impacts their returns and that's where the withholding comes in.

[00:05:34] WS: So, do you have US investors who are also investing in the US, but through you or through your connection?

[00:05:40] DP: Yup. Absolutely.

[00:05:42] WS: Do you come to the US often or are you marketing here? How do you make those connections?

[00:05:46] DP: Yes. So, I network a lot. I'm pretty active on LinkedIn, and that's how I think we got connected. I really do need to come to the US more often, but there's a lot of activity here in Israel. There's a lot of interest here in Israel. There's a lot of people coming here on a regular basis, especially within my circles. I've been building off of that, but trips to the US is definitely on the radar for some time in the intermediate future.

[00:06:07] WS: I'm just impressed that like you're raising capital in the US for US deals and you're in Israel. There's people in the States that are like trying so hard to raise capital. And you're so much further away. Anyway, I'm going to bring that up. I get so many calls over week of how to start raising capital, "how do I get into business, and how difficult it is." I'm going to tell them about you.

[00:06:28] DP: I'm not saying it's easy. I don't know. Sometimes, you don't even know where the money is coming from. But, yeah, you have to – It's work. You got to network, you got to hustle, you got to build a reputation, and it takes time.

[00:06:38] WS: I know you had mentioned you help people with healthy ways to work with money. Could you elaborate on that a little bit?

[00:06:43] DP: Yes. So. it kind of all started when I started raising money talking to people and I had these deals that, I mean, I thought, this is what everyone thinks when they're starting their first business. It's like, "I'm just going to create this amazing product, this amazing service. I'll just tell people about it, and I'll be a millionaire overnight, because everyone's going to want to do this thing."

So, I go out there. I get my first deal, and it was an amazing deal like an 11% cash on cash, very easy, triple your money in 10 years type of situation, very stable property, great tenants. I'm going out there and it's like nobody wants it. It was like, "Oh! But it's so risky and so far away." I kept coming up with, "It's so risky. It's so risky." I'm like, "What do you mean it's so risky?"

So, I started spending a lot of time just thinking about, reading about, learning about these concepts to be able to understand it in a deep way and be able to explain it people in a deep way. Then my course that you mentioned, the actual first section I have is on risk quantification, because risk is an important thing. But it's very important to understand what it is and how it's going to impact. A lot of people just hear, "Investing money, you can lose money," which is true. But holding cash, there's something called inflation. Over time, your money loses value also. It's something called – It's an opportunity cost.

And you know there are going to be expenses coming up in your life. If you have children, you have to send them to school. You have to marry them off. You have to plan for retirement. Have you even thought all that out? There's guaranteed expenses that are coming up. That's also a risk. If you aren't even thinking about that, I mean, that seems to me a lot riskier than putting your money into a stable or a number of stable cash-raising properties.

So, it kind of started off with that. I've expanded it into different areas of personal finance and just taking certain principles and trying to show and use them to show people a way to think about money that promotes building passive income, that promotes wealth creation and in trying to cover all different aspects of one's financial life and building it out piece by piece.

[00:08:38] WS: Would you say – When people or investors are asking you about the risk or where that seems common, would that be more common that its investors say that are in Israel are talking about investing in the US deals?

[00:08:49] DP: Absolutely. People in Israel aren't used to certain things. First of all, they're afraid to put their money far away. There is legitimacy to that, because one of the biggest risks of investing is investing in something you don't understand. Now, something that's nearby, you tend to understand it better. So, there is a certain truth to that intuition.

Secondly, the Israeli real estate market is very different than the US market. It's been on basically a very slow charge upwards for many, many years. It doesn't have the same boom bust cycle. It doesn't have the same profit levels. It doesn't have the same level of financing. It's a different kind of market.

So, Israelis are kind of people who are here are much more – The mentality here is that Israeli real estate is a zero-risk proposal, which is not true. But the mentality is that markets here have fallen. The markets here, there are years when the markets went down. But usually, it's a soft like 1 to 2% down, the soft thing in the market. But typically, people here are much more optimistic about the market here than I think it's warranted.

For example, there's a period when the market doubled over 10 years, which is nice. It's like 7% a year. People were telling me, "Oh! It just doubled." I said, "That's great." So, you think this apartment that you bought for $300,000 and now is worth $600,000, do you really think in another 10 years it's going to be worth $1.2 million? It's going to be worth in 20 years $2.4 million? It gets them thinking. "Wait a minute. Maybe it's not going to continue like that." But you have to just frame it in a way that they realize it. But, yeah, coming from here, there is a certain reluctance to putting your money outside of the country. Absolutely.

[00:10:13] WS: I can hear those questions from investors saying, "Now, wait a minute, Dovid. How do you know this deal? Have you seen the dealer? How do you know these operators?" I would imagine you get those questions, right? Probably a lot of others and how do you answer those?

[00:10:25] DP: Absolutely. So, we only work with a very small group of operators that we know incredibly well. They either are people who we know personally that they've been in the business for. I mean, our youngest operator is 10 years in the business and is a second-generation guy. We have partners who've been doing this for 20 and 30 years.

So, these guys have their track records. These are the track records we have personal connection with them, which is really only where we're getting our money in. One of our biggest brags is I was able to put investments as small as $20,000 into a deal which was like $125 million purchase price. Now, that's a certain degree of access and running that deal is – I mean, he's purchased over $4 billion in office space and he's been doing this for 35 years.

So, yeah. But I do sell my partners' track records. What I also sell is that we underwrite the deal ourselves, and we analyze them ourselves. My partner is an analyst of 13 years, and I've been in this for a number of years now. So, we do our own analysis, and we ask a lot of questions. When we talk about picking your sponsors and picking your partners carefully, we're talking about the people on the ground in the US who have the decades of experience running these deals.

[00:11:27] WS: What do you say? Three decades. He's been doing it for – There are the least experienced one been doing it for 10 years and as a second-generation. Yeah. So that's a lot of experience, and it's hard to replace something like that. Yeah. It takes a lifetime to get that kind of experience, and that's who you're partnering with. So, what does it look like in your business like, let's say, five years from now? Keep growing your network. Keep doing what you're doing. Partnering with operators in the US or do you plan to keep pursuing anything in Israel as well? Or is it mostly US-focused and raising money while in Israel?

[00:11:59] DP: That's a great question. I mean, look. I go where the opportunity lies. If I get good deals in Israel, something comes up through that makes sense, I'm happy to pursue it and see what I can do with it. In today's market, the best kind of thing we're seeing here is something that's called Tama 38. What that is is it's retrofitting a building to make it more earthquake-resistant. Let's just leave it at that. That's the basic type that's done.

So basically, the developers will come in. What they can do is a way to set up. Then there are tax incentives to do this, and that's what makes it profitable. An investor will come in and take a building with let's say eight apartments. Then they get permission to build out another five apartments and everyone in the building, they agree to do this. They all get newer and larger apartments, and the developer gets five apartments to sell.

To invest in this type of project, you'll typically make anywhere between 9 and on the top side 14% a year. It's usually debt, and you don't get paid overtime. You get paid at the end of the deal. So, the risk is pretty low. These projects are pretty stable and successful. The returns are – I mean, it's not exactly what we're looking at when we're talking about commercial real estate in the US even today. There's no cash flow from it, and the returns are kind of limited on the upside.

But, yeah. If something comes up, I'm happy to take it. We'll see where the business goes. Right now, we're still expanding. We have more people feeding into us and people who are joining our team. They like the way we operate. They see how we operate on the inside. Then as we expand, we'll have to see what opportunities come our way.

[00:13:17] WS: Nice. It's just exciting to meet somebody who's successfully raising capital in the US and partnering with deals in the US from so far away. It's neat to hear what you plan to do and that you're open to different things and it depends on where the deals are, right? But what's been the hardest part of this syndication journey for you?

[00:13:34] DP: So, this is really my first business that I've built from the ground up, and we get into real estate and get into a field where there are so many things happening, and there's so much money floating around. Now, with all the technology coming into it, what really hurt me in my first year was I was running in too many different directions. There are so many exciting things happening. Eventually, I learned the lessons. It's kind of just cut it all out. I remember I told my partner. I'm like, "Okay, what we're doing is come April 1st, we're just stopping everything but core operations. We're just raising money for these deals. We're not doing all these other fun things we are chasing after." And that's when things really started to gel and come together and move forward.

[00:14:12] WS: So, it was really – I mean, just coming back to a focus for you and your partner. Just figuring out where the focus is and moving forward. That's hard. I mean, that's difficult. You feel like all these other things are good. They may be good, but they're not what's best.

[00:14:25] DP: I mean, if only I just done that, maybe that would have been right also. But you can't do everything.

[00:14:30] WS: Yeah. So, what's a way that you all have improved your business recently though that we could all apply to ours? It could be anything. It could be some type of tech. it could be some type of, I don't know, anything.

[00:14:40] DP: I guess the last time that a major change that we operated was that a year ago when I decided I really needed to build out a stronger digital ground game. I was always kind of weak on the digital side. I always felt that no one's going to invest with me if I just go on social media and post stuff. You can't make relationships based on that. But what did I know?

So, I kind of focused on some advertising and networking and meeting people. I was driving all over the place and meeting with all these people and wasting a lot of time. Then I started getting into LinkedIn a little bit, and I saw how you could really develop genuine relationships with people. I was like, "You can't just post. There's a lot more to the game." But that's the starting point. You can use that as a real springboard to build relationships.

I always tell people, I just view LinkedIn as like a networking event that you can just always go to and always meet people. In a networking event, you just go there and stuff your card in their face. It's not going to work. If you use it as a springboard to have another conversation later and you go out for coffee and you schmooze and you build it up, you can build genuine relationships that way. That was a real game changer for me. There's just so much to do with that. I have, I wouldn't say a roadmap fully drawn out yet. But I have a lot of ideas that are on the back burner, because I'm only doing one piece at a time right now. I mean, that was a big part of it.

Beyond that, I decided to put a lot more digital content. I started the newsletter and I have my blog post and I started producing a lot more industry-related or just general wealth-related content. I put out that course. It's a year-old. I really want to go back in. So now, I'm working on one project. Then the next project after that is to go back and update a course. At which point, I may even be giving out probably too as the last time, which is I raffled it off to a number of people. And quite a few of those people who won the course and took the course actually became investors afterwards.

I guess the biggest take away from all this is you always have these limitations in your mind like, “I can do this, but that's not for me.” And then you sit down and you just do it, and it won't be perfect the first time. It wouldn’t be great the first time, but you keep plugging away at it. You can build out a digital ground game, you can build out a digital funnel, you can build out some great content, and you get better and better over time. So just don't sell yourself short.

[00:16:43] WS: That's a great idea though, the raffle and giving that away. That's incredible to hear though. I mean, it paid off. Congratulations to you. You had a couple people invest that went through that. So, what is your best advice for caring for investors, so they want to come back?

[00:16:56] DP: Caring for investors?

[00:16:58] WS: Yeah. Treating them in a way they want to come back. What's the most important thing?

[00:17:01] DP: Well, I mean, this isn’t always relevant. But you can't put people in the wrong deals. You got to make sure it's right for the people, for me especially. But sometimes, I am dealing with less sophisticated investors. I had someone call me up just today, and he wanted to put money in my deal. I basically turned him down, because given where he was in life and given how much money he had, I felt that the risk was too high. I said, “You could very easily find yourself in a situation where you’re going to need this money in the next two or three years, and it won’t be available to you.”

So, you really got to go with the mentality of what's good for my investors. At this point, I’ve been doing this for so long. It's not even much of a challenge anymore. It’s not like I have this tug of war, “oh, but it’s really good for me.” It becomes second nature. You just got to focus on what's best for your investors. If you do that, they'll see that it’s genuine. They’ll pick up on it, and that’s how you build the trust, which this whole business is built on trust.

[00:17:46] WS: I couldn't agree more about that, the relationship component. Yup, it’s so important. What about your way that you like to give back?

[00:17:54] DP: For starters, I feel that the business I started has that component in it. I’m not chasing after these – I’m not saying there’s anything wrong with doing that. But I’m not chasing after ultra-high-net-worth individuals. Also, I tell people, “Oh, I'm in real estate.” They’re like, “Oh, I know this guy. He invests in deals. He’s got like millions of dollars.” I’m like, “That’s not really my target market, and I’m not really sure I can really bring him anything better than what he’s seeing because I’m a syndicator. I understand that for people who have lots of money, they get deals all the time. So, I’m not of any value to him. So. I don’t see necessarily a reason to meet him.”

The core business is helping people out. I also have a day job. I work in technology as well, and that's not necessarily helping anyone in such a direct manner. So, I really view the core business though of real estate and just the content that I publish. I get such great feedback from people like I’ve had people tell me that I’ve changed how they approach their entire financial life from stuff I put out on LinkedIn, which is incredible.

[00:18:42] WS: That is incredible. That's a big complement, isn’t it? I mean, that they’re following you, and they’re learning from your content. That’s awesome. But, Dovid, you've been a great guest. And I appreciate you elaborating on just the international component and how that's worked for you and just how you’ve networked through LinkedIn. And I liked how you talk about LinkedIn as like this networking event that’s just always there. It would help us if we viewed it that way, wouldn’t it? I mean, you're not coming to all the conferences in the US all the time. But you have been successful in networking in the US, even though you're living so far away. Congratulations to you.

But thank you again for your time. Tell the listeners how they can get in touch with you and learn more about you.

[00:19:20] DP: So, as I said, I'm on LinkedIn, D-O-V-I-D P-R-E-I-L. Also, my website is why ydlpinvestments.com. You can sign up there for a newsletter. There's a contact form. And by email at dovid@ydlpinvestments.com.

[00:19:34] WS: Awesome, Dovid. Thank you very much.

[00:19:36] DP: Thank you.

[END OF INTERVIEW]

[00:19:37] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes. Lastly, I want to keep you updated. So head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

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