

EPISODE 372

[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]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Mike Roeder, thanks for being on the show, Mike.

[0:00:32.0] MR: You're very welcome, I really appreciate you having me on the show, Whitney.

[0:00:34.9] WS: Yeah, Mike and I were introduced in Dallas just a couple of weeks ago. Getting to meet him and his partner, and hearing what they were up to – How they just closed a deal in Dallas, and from being so far away from living in Dallas, it's a very impressive story and I'm looking forward for him to share it with the listeners and myself.

A little about Mike. He started investing in Real Estate with single-family homes in 2009 through house hacking. His first multi-family property purchase was 20 units in central Minnesota. Currently, he's invested in 1,100 units and has lead three syndications. He is well on his way, so, thank you again, Mike, for being on the show, and give us a little more about how you got into this syndication business and let's dive into our topic today.

[0:01:20.8] MR: Most definitely. Again, I appreciate you having me on the show. The way that I got into multi-family syndication was really about thinking about how we could scale our business quicker and faster. I was going the single-family route and I remember back in the day, my original goal was to have a hundred single-family homes and you know, to accumulate

maybe one or two of those per year and, you know. After a few years, that was going fairly slow, my now-business partner was in multi-family. He was buying 20 to 30-unit apartment complexes, and we kind of came together and he said, "Hey, why don't we team up and start to scale our business? Buy some deals together?"

So we did. We bought that 20-unit apartment, really liked what that provided us as far as cash flow and how it performed, and soon after that, we found a mentorship group that we became a part of, and that was more of a syndication mentorship though, it really fit with what we were wanting to do. We were wanting to scale up and it allowed us to do so.

[0:02:16.9] WS: You were buying single-family homes, you wanted to scale, and your partner came to you and presented maybe you all buying an apartment building. But where was it? You had already been doing this for a few years, but where was it that you all said, "Okay, I need a mentor. I need somebody to show me this process a little bit."

[0:02:33.1] MR: Yup, it was after we bought that 20-unit, you know. We were really wanting to scale further and you know. Our capital was limited, we both had a solid income and we had capital available, but in order to buy a 50, 100, 200-unit apartment complex, the capital just wasn't there, and so, essentially, we decided, "Hey, let's research a few groups." My business partner had been a part of a few groups and we ended going to a meeting down in Dallas Texas actually with the Sumrok Group. It really struck with what we were looking to do, and resonated with us.

[0:03:05.4] WS: Tell me, I guess, the deals, the syndications you all have done since then, or just briefly and then we'll hone in on maybe the last one.

[0:03:11.4] MR: Most definitely. We started out with a 45-unit syndication in River Falls Wisconsin. That's about a 50 minute drive from where I'm located at, so fairly close to home. We've owned that property for about a year and a half, and that property's been doing phenomenally well. We just got through all of our rehabs, we did full exterior, parking lot, siding, face, gutters, windows, you name it. That was a pretty heavy lift. Then we jumped into a smaller syndication, very small syndication.

It was a 12-unit project in Minnesota, actually, right next to a 28-unit that we owned, so we were able to again, gain some economies of scale, and so that's why we took on that project.

[0:03:51.7] WS: The 28-unit, did you buy without syndicating it?

[0:03:55.2] MR: We did, correct. It's myself, my business partner, and then one other gentleman that we brought onboard for that property.

[0:04:01.3] WS: Okay, now you syndicated the 12-unit deal, go ahead.

[0:04:03.8] MR: Correct, and then we recently closed on an 86-unit down in Cleburne, Texas. That was outside of our local market. We were able to break into the DFW market which we were really interested in, and that's about a month and a half in the works as of right now.

[0:04:18.5] WS: Nice, yeah. It's so impressive too because people say it's so difficult to find those deals and invest outside of your market, and it is more difficult of course. But, you know, you live in Minnesota, your partner lives in Washington state, is that right?

[0:04:33.8] MR: That's correct.

[0:04:35.0] WS: Yeah. And so, you were all able to close on an 86-unit, you syndicate a deal, 86 units in Dallas Fort Worth. I'd love for you to break down a little bit, how you were successful in that market. Everybody listening knows that that market is so hot, everybody, you know – so many operators in that area. How did you break in from being so far away but you know, start way back and let's dive in.

[0:04:57.2] MR: You bet. One of the ways that we really broke into that market was, flying into the market, setting meetings with selling brokers. We wanted to make sure that we met each of those selling brokers. A lot of syndicators, you know, they may just have a phone call or just connect via LoopNet, and just build out their database and they're getting that deal flow, and so they're able to underwrite those deals.

But what's extremely important in today's environment is to be able to have that personal touch with that broker. You sit down, maybe take them out to lunch or you take them to coffee, or you meet at their office, you know. Whatever's most convenient for them, and just really get to know them. And so, that way, when you submit an LOI or you're considering a property, they know your face, they know your name, they know your company, and they feel more confident with you. That helped out quite a bit. We're also very plugged in in the DFW market because of the mentorship group that we joined.

So, these brokers are very confident in the students that are part of this mentorship group, and they are confident that they're going to close, and they're not going to have issues during the process. That helped us out as well.

[0:06:04.6] WS: That's an interesting touch there, a piece that you know, the broker is also confident in the mentoring group that you're a part of, or he's probably worked with other – I'm sure he has worked with other clients or students of that program, so it already has some reputation, or that helped build some credibility for you, just being a part of reputable group, you know? But that doesn't mean it was easy, right?

[0:06:26.8] MR: It was not, no. It took a lot of time you know? Truthfully, when we started syndicating projects, it took about a year to land their first project, and one of the things that I would have changed if I could go back is we started looking in Minnesota and around Minnesota and there was very little deal flow. So we were underwriting deals, we just weren't underwriting enough deals, and as competitive as it is today, you want to make sure that you have the correct amount of deal flow so that way you can underwrite enough deals.

Because really, when it comes down to it Whitney, it's a numbers game. You know, the more deals that you look at and that you offer on, the more likely you are to land a deal, and so that eventually led us to break into the DFW market. We broke into a couple of other markets as well. That's really helped us start to scale a little bit quicker.

[0:07:10.9] WS: Okay, some great information here. Questions that we need to talk about. Tell me though, how many times were you flying down there before you landed the first deal in Dallas Fort Worth?

[0:07:21.0] MR: We'd fly down there approximately once a month for the last two years so it's pretty consistent.

[0:07:25.6] WS: That's commitment right there. That's not easy to travel that much and be away from family, but go ahead. Flying down once a month.

[0:07:34.2] MR: Yup, we'd fly down once a month and that was you know, we usually do a networking event. Times we meet up with brokers, tour different areas of the market, you know. We fit a lot in in a couple of days, you know, each time we flew down.

[0:07:45.7] WS: Was that trip always planned? Let's say, the third weekend of every month, or how did you all go about planning that, and was it always you and your partner traveling at the same time?

[0:07:55.1] MR: Usually it was me and my partner. Really, we based it around networking events. Our mentorship group does have a lot of networking events that we're a part of. We'd usually fly down for those, and then whatever we can squeeze in around that, we'd go ahead and schedule that as well.

[0:08:09.1] WS: Smart.

[0:08:10.2] MR: You bet.

[0:08:11.5] WS: You're flying down, I mean, you're scheduling all these meetings. How long would you stay at a time?

[0:08:15.1] MR: Usually two to three days would be the goal.

[0:08:18.8] WS: Is this while you and your partner are working full-time?

[0:08:21.8] MR: We both have very flexible positions. My business partner is a professional snowboarder, so he has a good chunk of the year off. And then I have a flexible consulting position as well in the insurance field. Still very flexible as well, but we both do work as well.

[0:08:37.4] WS: I'd like for you to elaborate on how you continue to grow the broker relationships, and we'll also get into how you increase your deal flow. You talked about it a little bit – you're that far away, but you're going, you're taking them out to coffee, you're having those meetings, but anything else that maybe you did to increase that relationship or to meet more active brokers in specific markets?

[0:08:57.6] MR: Yup, another thing that we have done before, you know, say you don't have an outstanding relationship with the broker. However, you've maybe closed on another deal in another market. Let's say CBRE lists a property in Dallas Texas, we don't have a great relationship with them, but we've closed the deal in Minnesota with CBRE. One thing we'll do is we'll have that broker from put in Minnesota, call to the broker in Dallas Texas, and just discuss how their relationship is with us.

How we've done on previous deals, you know. Whether we performed or not, and that can really help give them confidence and your ability to close.

[0:09:29.8] WS: Yeah, that's awesome. SO, having one broker that you've worked with introduce you to another broker in the same firm. Because they're going to ask and talk and communicate about you, so that's great advice. How also are you increasing deal flow?

[0:09:42.5] MR: You know, I would say, our main sources of deal flow would be Selling Brokers who are always looking to meet more Selling Brokers, and then also property management companies. Once you have a relationship with the property management company and they're managing a deal for you, you tend to get some deal flow that way as well.

That's been a good source for us as well. We have tried in the past, calling campaigns. So we had a couple of younger gentlemen making calls for us off of a CoStar list and essentially, you know, contacting off market properties. That we tried for you know, about six months or so, and we didn't have too much luck with that.

And I think really, when you're looking at the multi-family space, specifically 100+ units, a lot of those properties are going to be listed. So, what we came to find out was, "Let's focus on what we're good at, and that's building relationships." We're selling brokers, and then also, you know, a networking with passive investors, and, you know, raise that capital, and then leave the rest up to the selling brokers.

They're professionals at that, they're very good at drumming up properties and as long as you have a good relationship with them, you should be able to land deals.

[0:10:45.9] WS: You hired a couple of people to make those initial calls for you?

[0:10:49.1] MR: We did, correct.

[0:10:50.3] WS: Tell me about that process a little bit. You said it didn't maybe work as well as you had hoped, but kind of walk me through that a little bit.

[0:10:56.4] MR: Yup, we basically got a list from CoStar with names and numbers of, you know, properties. 60 Units plus, in several different markets. And we handed these lists over to a couple of gentlemen that were looking, were eager, and willing to jump into the multi-family space and learn from us.

And so they would make multiple calls per day, you know. Usually a couple of hours a day or so, and just contact off-market properties saying "Hey, we're Granite Towers Equity Group, we're looking to buy in this area. Would you be willing to accept an offer from us or at least take a look at what we'd be offering on your property?" It's a pretty simple conversation, pretty simple concept, and I think for some people, it could definitely work.

[0:11:36.4] WS: Yeah, what was the majority response?

[0:11:39.9] MR: Truthfully, a lot of people did not answer, or you'd get a hold of a property management company and you know, they'd say, "Yeah, we'll relay your information on to the owner." And then you won't get a call back. We did have a few properties that – a few owners that gave us, their financials over, and we took a look at and we offered on.

A lot of none response, just because, you know, most of those names and numbers are going to go into property management companies, and sometimes it's tough to get through that gatekeeper.

[0:12:06.3] WS: So, you've decided now that maybe that's not the best way to move forward?

[0:12:08.3] MR: Correct.

[0:12:09.9] WS: So you're focusing now on what?

[0:12:11.0] MR: Specifically, listed properties is usually what we're focusing on, and when you're in big enough markets that have the deal flow that you need, you can certainly do that. When we were up in Minnesota, that was one of the reasons why we did the calling campaign, because there wasn't enough deal flow. You know, now that we're down in the DFW market, there's obviously a lot of apartment complexes being listed down there. So that really helps us out and allows us to underwrite enough deals.

[0:12:36.0] WS: Very competitive down there and no doubt about it, right?

[0:12:39.3] MR: It is very competitive. You know, up in Minnesota, it's very competitive up here as well. I feel like most markets at this stage at in the game are extremely competitive.

[0:12:49.5] WS: How are you standing out in Dallas Fort Worth when you're so far away?

[0:12:53.6] MR: You know, I would say, there's few different things. First off, that relationship with the broker is just instrumental. We need to have a good relationship with them. They need to know you. The second item would be your resume. For any new syndicators out there, I would try to build up a strong resume as soon as possible and if you don't have a resume, consider partnering with someone. Consider partnering with someone that has 5, 10 deals under their belt, or even a few deals and they're passively invested in others.

You know, that way you can show, “Hey, we have properties in this market that we’ve syndicated together,” and give yourself a little bit more credibly. I would say, those would be the main two items. Also, be present, you know. When a property goes live with a broker, make sure you get down to that market if you’re very interested and the numbers look good. Tour the property with the broker, you know, if you’re not going to tour the property, it’s going to be very hard to land that deal.

Make sure you tour it and you talk to the broker a few times over the phone, and just make sure that they know you’re very interested and that you really want this deal.

[0:13:53.2] WS: This last deal that you all closed on down there, tell me a little about the deal and what the plan is moving forward?

[0:13:59.6] MR: You bet. So it is an 86-unit property located in Cleburne, Texas. So it is a little bit south of Fort Worth, and, tertiary market, a lot of growth in that market, a lot of demand, so we really like the market when we first saw the deal. The plan on that one is to upgrade the remaining interior units. So there is about 60-70% of the interior unit that are not fully upgraded. So we will finish off the upgrades there. We are also installing fenced-in backyards in 48 of the units.

So that will allow us to take advantage of a little bit of a rent bump there. We are relocating the office, so right now the office is in a two bedroom, one-and-a-half-bathroom town home unit and so we are able to convert the laundry room. Basically, split the laundry room in half, create half of that as the office and then half is the laundry. It will be a really nice space when we are done with it, and that will allow us to rent out that town home unit instead of having that, you know, not producing the income.

[0:14:55.9] WS: So then what is the whole period? What was the projected returns and some of that?

[0:14:59.9] MR: So the whole period we’re – we usually look to hold around five years. You know, typically I’d say anywhere from three to seven years, but five years is the typical hold. At that point, we may look to reify, cash out, or sell. It really just depends on the market. Projected

returns we were at a little bit north of 70% over five years. About a 14% internal rate of return and then our cash-on-cash was a little bit higher than 10%.

So anyone that doesn't understand that that is the cash flow that is coming back to you annually. It would be about 10%.

[0:15:29.7] WS: Nice. Okay so you are also working with contractors while you're from so far away right? So tell us a little bit about how you are doing that and how you're being successful working with them while being many states away.

[0:15:43.4] MR: So, you want to make sure if possible to have boots on the ground, and that is something we brought on another business partner that is local in the DFW market for this property, and that allows us to have eyes on the property as much as we want, you know, weekly or biweekly, and that helps make sure that that contractor is doing the correct upgrades and that they are on time and precise with what they are doing.

So that has been very helpful. You know, you also want to make sure that you have the proper contracts in place. So when we did one of our first syndications, we did a handshake deal with the contractor. You know, we were friends with him, we trusted him, and it turned out that we had some issues with that contractor with the process, and that really boiled down to not having the contract in place, not having strict timelines that these projects were going to be done by.

And that really led us to learning that, "Hey, these contracts are very instrumental in getting the project done, and getting it done on the right time."

[0:16:41.4] WS: You know anything that – I want to go back to the partner that you are partnered with and why that is so important – but then also, anything that you put in your contracts that we need to know about that maybe we should be thinking about going forward that we haven't discussed?

[0:16:53.9] MR: I would say be as concise as possible, and make sure that you have every detail outlined, and then also make sure that you have a strict timeline. And you know with these contractors, obviously weather can play a big part on whether they can get the project done or

not, you know. Specifically up in Minnesota and Wisconsin. We have some pretty harsh weather up here in the winter. So make sure you take that into consideration. You know that you have a little bit of a buffer for bad weather. I would say that those would be the main two pieces.

[0:17:21.0] WS: We don't normally expect bad weather do we?

[0:17:23.4] MR: Exactly.

[0:17:26.3] WS: Yeah, and being as concise and you mentioned, like all the details, and any other details that we haven't mentioned like the strict timelines, buffers for bad weather, anything else that maybe you'd learn through this process that you need to add?

[0:17:38.7] MR: You know I think outlining what type of materials you're going to be using, what colors for the materials, you just want to go into great detail so that way you don't come up with any surprises. For instance if you're going to a certain type of siding, make sure you have the make of the siding, the color of the siding, what type it's going to be, how it is going to be outlaid. So if you have certain trim boards on the exterior, make sure you have a visual of that as well if possible.

You know if your contractor can draw up a design instead of just telling you, you know that is going to be extremely helpful when it comes to the finished product.

[0:18:14.1] WS: I would say. I mean that is a very valuable piece of information right there. I am glad we got to that not just like the material list but, what type? I mean you even said the sidings, so what types of sidings? So there is a lot of different types of siding.

[0:18:25.7] MR: There is exactly, even when you are talking vinyl or hardy plank, there is still a ton of different types of those sidings so.

[0:18:33.0] WS: Right and before we ran out of time, I'd like for you to elaborate too on you found a partner that's 'boots on the ground'. How did you do that and how did that help you in landing this deal?

[0:18:42.4] MR: Correct. So we found her, we had a relationship with her through that mentorship group that we are a part of. So we had built trust, we got to know each other a bit and so that really helped give us confidence that she would be a good partner on this deal and, you know, she came to us saying, “Hey, I’d be interested in co-sponsoring with your team and coming in on this project,” and it really fit with what we were looking to do. So it ended up being a great relationship, and so we have been very excited and very thrilled about it.

[0:19:11.8] WS: Great and what was that person’s role during this process and finding this deal and then getting it closed?

[0:19:18.5] MR: Yep. So as far as finding the deal, Dan and I, my main business partner, we were the ones that we had underwrote the deals, flown down to the markets, took a look at them, toured the comps and everything. We really brought that third partner on after we found the deal and we got the deal under contract, and her position now is to be basically boots on the ground.

So, to be involved in and going to take a look at the property. She is involved on our weekly calls with their management company, you know. Drumming up ideas. All three of us really work as a force together. You know there is not necessarily one job that one of us does. You know, we all just make sure that we are trying to drum up ideas and implement our business plan correctly.

[0:19:58.4] WS: All right Mike, so a few questions before we ran out of time. You know what has been the hardest part of the syndication journey for you?

[0:20:04.7] MR: You know, I think the hardest part of the syndication journey would be finding a deal and staying motivated. You know you can offer on a lot of properties and not see any results. So, you just want to make sure that you have someone there pushing you, and that’s really instrumental with me, is having a business partner that is motivated. So that way we can really motivate each other throughout the process.

You know, when we lose out on a few deals in a row that we really thought we are going to get, you know, we can motivate each other and say, "Hey we are going to get the next one, let's keep going."

[0:20:34.6] WS: How are you all prepared for another downturn?

[0:20:37.0] MR: The way that we prepare for a downturn is in our underwriting. So we make sure that we use historical numbers. So, for instance, you know, our vacancy rate. Although up in Minnesota we have some of the lowest vacancy in the nation, you know 3-4%. We make sure that we are using historical numbers. So, you know, 8%, 9%, so that way, if we do have a downturn, you know, we feel very comfortable that we can still hit our results, or perform up. The same goes with rent growth, reversion cap rates, and so on.

[0:21:05.0] WS: What is a way that you've all improved your business recently that we could all apply to ours?

[0:21:08.6] MR: So one way that we have improved our business, especially when utilizing business partners would be to use Google Drive. That has been instrumental for us. We are able to make modifications to our spreadsheets and our business plans and whatnot, and everything updates at that moment. We were using Dropbox for a while, and we have multiple spreadsheets, and they weren't updating at correct times, and so that has really been helpful for us.

[0:21:33.0] WS: What is a way that you like to take care of investors, or a way that you care for them so they want to come back?

[0:21:38.5] MR: Yep, so one thing that we just implemented was a quarterly newsletter, where we are updating our investors on what we've been doing over the quarter. We are giving them a nice article so you know, building some value in that quarterly newsletter, providing some information on books that we really found to be beneficial to us. And then we also provide monthly updates. So, you know, passive investors, they really like to be updated on the properties that they are invested in.

So, the more that you can communicate with them and the more information that you can give them, the better. Don't ever feel like you are over communicating with someone, because when you get an email it is as easy as clicking delete if you don't want to see that communication. So make sure to be open and be regular on your communication with your investors.

[0:22:23.2] WS: What is the one thing, Mike, that has contributed to your success?

[0:22:26.5] MR: I would say persistence and drive. You know in multi-family space, you have to be persistent. You have to keep going. Really, there is a couple different groups that jump into multi-family right off the bat. There is the groups that go hard at first, and they lose out on a few deals and they get discouraged, and they drop out. And then there is the groups that keep going, and they go and they go and they go, and they're going to land project after project if they keep that mental attitude up.

[0:22:51.6] WS: Are there any specific ways – because we briefly talked about this, but that you all stayed motivated. I know you said you're thankful to your partner that's motivated, and helps you to stay motivated, but anything that you can talk to there about – you mentioned like, losing deal after deal. You are offering another LOI, another LOI, you know – it didn't happen... How are you staying motivated?

[0:23:10.4] MR: Yep, so we have two ways for myself. First off, my family. You know, we want to build financial freedom and have that flexibility in the future. So that really motivates me. I have two girls, a seven year old and a three year old, and my wife, so they keep me motivated. And then the second thing that has really motivated me and my business partner is, we recently partnered up with a non-profit in Minnesota. It is called The Sheridan Story.

And it is a group of individuals that provide nutritional supplements for kids after school on the weekends and in the evenings when they don't have the access to food, and so we are donating a certain portion of our profits to that non-profit, and so for us, to know that every deal that we do and the more successful that we are – that is going to provide to hungry children. That really keeps us motivated day in and day out.

[0:24:00.1] WS: I love that. That is awesome. And so I was going to ask, how do you like to give back, but maybe that's it but I will let you share.

[0:24:06.1] MR: Yep that is exactly how. So both Dan and I have young children, and it just kills us to think that kids are out there going to bed hungry, or not getting fed on the weekends, and so that is something that we implemented into our business right off the bat. Yeah, we are extremely excited about that.

[0:24:23.2] WS: And tell the listeners how they can get in touch with you?

[0:24:25.4] MR: Yes, so you can shoot me an email at mike@granitetowerequitygroup.com or you can go ahead and visit our website, and there is a Contact Us form on the website, and our website is granitetowerequitygroup.com.

[0:24:44.3] WS: All right that's a wrap.

[0:24:45.5] MR: Well thanks again for having me on the show Whitney. I appreciate it.

[END OF INTERVIEW]

[0:24:48.4] 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.

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[OUTRO]

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