

EPISODE 409

[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 Aaron Fragnito, thanks for being on the show Aaron.

[0:00:32.6] AF: Good morning Whitney, glad to be here.

[0:00:34.3] WS: No, I'm excited about this show and what you're doing in the syndication business and so different than some of the other guests but it's a great topic and I'm really looking forward to digging in to how you started this and what you're doing. A little bit about Aaron, he is the cofounder of People's Capital Group, also known as PCG.

He's also the host of the New Jersey real estate network and a licensed New Jersey realtor and a full-time real estate investor. He's completed over 250 real estate transactions, totaling more than 35 million dollars in real estate in his career. Aaron, thank you again for being on the show, I appreciate your time, tell the listeners a little more about who you are and let's dive in to what you're up to in the syndication business.

[0:01:13.9] AF: Sure. So, Peoples Capital Group is located in Berkeley Heights, New Jersey. And we buy all of our real estate around north Jersey and you know, what separates us from a lot of other syndicators is – I was talking to an attorney years ago and he said, well if you don't have \$50,000 and millions of dollars and you can't start real estate fund. And for years, I thought

that was the case and then one day, I figured out, by talking to my SEC attorney, how to start a small syndication and buy less than two million-dollar buildings and start a small fund for each and now we have a very successful real estate syndication.

Yeah, we do in Berkeley Heights, we buy small apartment buildings, we work with about 30 local investors and we're teaming up with new investors every day.

[0:01:52.6] WS: Wow, tell me about like your – what were you doing right before you got in the syndication business?

[0:01:58.9] AF: Well, I started as a realtor in this business. It was 2010, no one was buying houses, it was terrible. I made \$500 my first six months in real estate and then I figured out how to do short sales and to this day, I still work with the great short sale team, a company that negotiates it. And I would double in the deal, I would get and just close dual agent.

I would have my buyers that I'd meet at my real estate network events that I go to and you know, I would speak there, I would present how to fake it till you make it was one of the topics back then. I could probably, really, I could present a good how to fake it till you make it. It was great. I would have my buyers and I would go out and I get the listings, short sales and have the team negotiate it and I figured out how to make some money there.

Eventually, started buying six units, my partner Seth Martinez, who I work with today who does all the operations for our business and you know, I say, we started teaming up together and developed management company but yeah, getting started was being a realtor really helped me, that was great tool to get started, you know?

[0:02:53.9] WS: Okay. It's just interesting because a lot of people listening or trying to get started into this business and so being a realtor, you said that was very helpful. In what ways? How did it help you or prepare you?

[0:03:03.2] AF: Well, it gives you a title when you don't have one right off the bat, you know, as a wholesaler, you're like, "I'm a wholesaler. What is that really?" You know, especially getting started, you haven't done a deal yet, you know, going insane, your wholesaler's tough. I think

being a realtor. You know, there's a board of realtors, actual controls over big transactions of realtors and it's a little more sophisticated than wholesaling, I assume. But at the end of the day, it helped me make some money.

Being a listing agent was not an easy buck but it was not the hardest buck I've been in real estate. I think flipping houses is actually a harder dollar in real estate than being a listing agent, you know? Being a listing agent is a great way to get started, a great way to make some money especially in this market. If you can work with the buyers, you can get the listings and if you list, you last.

I had a point of about 40 transactions. I remember one year, as a realtor and it's great, that allowed me to put together some cash to buy some small commercial real estate, six units.

[0:03:56.6] WS: Tell us about getting into that first syndication?

[0:04:00.6] AF: Well, you know, the first syndication was a 25-unit because you know, syndication's actually when you pull capital together from a handful of silent investors and then buy a building. So that was a 25-unit we did in South Jersey. By that time, Seth and I had been working together for some time and we – it was 2014 so we had developed a nice little portfolio in North Jersey area, the developing markets there and to this day, we do very well with those markets.

We bought a 25 unit, outside of Philadelphia on the Jersey side and this building was owned by what ended up being the town inspector. He would come out and he would inspect us for all types of things. And we bought the property for a good price and we negotiated pretty hard, the transaction is our job is to do for our investors and so he wasn't too happy at the end of it, I guess.

I remember one of our tenants left a TV on their curb for a week and you know, he had fined us \$11,000 for that. He was just throwing the book at us and it was very difficult. I learned there, don't buy the property from the town inspector. If you do, leave the closing table happy, right? Although, sometimes getting a good deal, it's hard to do that. At the end of the day, we ended

up selling the building for a nice profit, our investors were very happy, they reinvested with us today and –

But that was our first property and we developed our own management company through that property by necessity because we basically cycled through two management companies trying to find the right fit for that 25 unit in South Jersey, 90 minutes from us. It was a tough management job and one management company we hired just – was very reputable, very large and just didn't do a good job, they over promised and under delivered and had high vacancies, weren't really going above and beyond for anything and then we hired another smaller family owned company. And they would meet tenants at the property. They would collect the first month's rent and security deposit. They would do the same thing, the next couple of hours with someone else for the same unit. Collect a bunch of money for the same unit, run of with the money.

We actually had to take them to small claims court and we won.

[0:05:58.2] WS: Wow. A couple of questions though, this first deal, I mean, it already sold her for a profit, congratulations to you and your partner and say that's a big deal, that's great. Tell me, how did you raise a capital for this first deal?

[0:06:10.3] AF: Well, we raised a capital by our network. We have a real estate networking group called New Jersey Real Estate Network and we meet up on the second Tuesday of the month at our office in Berkeley Heights. And you know, we just gone around networking, I had gone around to all different types of real estate groups for years and had good relationships and still do to this day. And I go speak at the different REIAS and that's been you know, a godsend to our network and our fund raising capabilities. and out of the 30 investors we work with, I mean, I would say 20 of them probably are from just straight networking, you know, real estate networking and things like that. Our real estate group.

[0:06:46.2] WS: Okay, you had been networking, you had been at these groups for a period of time because that's a lot of people's – it's very difficult to raise a capital for the first deal for sure. With no track record, hadn't been in syndication business. But you had been in real estate, you had that title, you know, like you talked about, you know, at least you're a realtor, you have

some credibility and you were speaking at these events and so you built credibility that way as well.

You know, how long had these people known you before you had this first opportunity for them to invest in?

[0:07:14.2] AF: You know, it's hard to say. Probably a year at least but you know, for some of them maybe not that long, it was hard. We hustled to raise the first capital. It was a hard raise. And it was a challenge so it was all about the public speaking, you know, I worked on my public speaking, I've always enjoyed it as well and kind of had a knack for it and getting up in front of the crowd, even as a beginner, I had a six unit a two unit there, three units there.

I had my transactions going as a realtor. I was kind of like the deal guy. People knew I had deals. Being the deal guy as a realtor, you know, broker, wholesaler, I could really cherry pick the best deals coming in buy them, by raising capital and I still do that to this day and also, sell deals to other investors and make money there and also build my network. Because then you're talking to a bunch of people with money who buy real estate.

Who better to invest in you than those people? And a lot of times, they're happy to sit back and let you do the work as they give the check. Because they realize how hard it is to do this real estate business. Yeah, that's how I raised my first capital. And you know, it's all about maintaining that relationship as well but getting up in front of the crowd and speaking at these REIAs really important.

You know, make a beeline for the owner of the group when you go to these things. That's the guy you would really want to be talking to because he's the one calling the shots there and get up in front of the crowd, a lot of times, the people running the shows need your help, you know? I constantly have to bring in new speakers and it's a lot of work, you know? You know how it is, the networking business is a lot of work and approaching them and saying hey, I can come in and I could speak about buying my first two family, you know?

Perfect. Guys like we love that because then, that's the story that as you build, years later you kid of forget that story so much. And you get a guy who is new to it. You know, if you're getting

started if you have something done, you know, maybe you flip the house, talk about your first flip. Whatever you do in this business, just get it out there to the world as much as you can.

[0:09:05.6] WS: That's great advice. I couldn't agree with you more. You got to be getting in the front and it is that person that's running the group that you need to get to talking to and need to meet. Great advice. But tell me though, when you're speaking now, you know, what are you talking to other groups about now, how are you building that credibility even further.

[0:09:21.5] AF: I have my real estate network event I talk about case studies we're doing right now. Buildings were buying, how we find them, how we analyze them and how we structure the LLC and raise the capital. And I have speakers come in, I have a nonprofit come in every month, usually a different nonprofit and they speak for about 20 minutes, I like to have a good cause and encourage my investors to give back a little bit as we do as well. And then I normally have someone to come and speak maybe someone from Merrill Lynch who could talk about how you can borrow against your stock portfolio and safely get some liquid cash and to invest in real estate and diversify your stock portfolio in a real estate without selling your stocks.

Maybe I'll have someone come and talk about that or an IRA person who could talk about self-directing your IRA. Then I'll go on, I'll speak for about 45 minutes about what we do, how we work with our investors or our syndication. We also have our residential section of our company that sells whole sale properties.

A lot of active investors come to our events and then passive investors around our area come as well. And you know, we make an effort to attract serious people, we go to a lot of real estate networking events and many of them are filled with many beginners which is fine, you know, everyone starts somewhere and there's nothing wrong with that but we try to kind of focus on higher-level topics and therefore draw a bit of a more experienced crowd to our REIA, we like to think.

[0:10:39.9] WS: How did you know that it was time to sell that first syndication for 25-unit?

[0:10:46.1] AF: You know, we're having challenges with the management of it, being 90 minutes away. So, by the time we fired the second management company, we said, "Okay, we cannot

bring the third management company. We have to do this ourselves.” Do this right, sometimes you have to do something yourself.

We developed our own management company by necessity and today, it is a really awesome management, in my opinion, the best management company I know. Because I’ve worked with many of them. We really you know, developed a secret weapon there and then realized the market was doing well, the building was doing well, we had turned it around with our management company was making a lot more money than it was when we first bought it.

You know, we had done a bunch of things, we turned over some utilities and we had raised the rents and figured out there was a lot of problem tenants. Most of the tenants were like, “Our last landlord let us skip a month, why can’t we skip a month?” A lot of that and over time, we were able to build value to property up by about 25% or so and we sold it for a nice profit and just about 36 months, I think by 30 months.

Less than three years and made a very nice profit there. You know, it was a tough management property, we learned a lot from it, we did very well with it, we fine-tuned our management skills to the building and it’s kind of your first deal syndication is all about sometimes, since then we’ve done even better.

[0:11:58.6] WS: Tell me though, I know you’re doing lots of different size of deals. I think you had mentioned before we started recording, even like the six unit. You’re syndicating deals that are say four to six units as well?

[0:12:08.8] AF: Right, we’re not four units. Our minimum is six. So, I do syndicate six unit properties, I just did one in January, raised 165,000 from one accredited investor and started a 506(C) and you know, bought the property and you can do that, you don’t need 50 grand to start a syndication. To get a PPM well developed, the private place memorandum you do. But talk to your SEC attorney, mine advised me that we can work with LLC operating agreement in certain scenarios and notify the SEC properly with proper filing fees which is like 1,200 bucks. You know, the file of fund in New Jersey. It’s the PPM that cost a ton. Obviously don’t take advice from me but talk to your attorney and you know, if he advice you such then you can do that.

Here in Jersey we do syndications as such with a very in-depth operating agreement and that allows us to avoid PPM in certain cases.

[0:13:01.5] WS: I know there's some listeners I know that are saying, "Wait a minute Aaron, why don't you just JV that? As supposed to doing a syndication, why wouldn't you just partner with that investor?"

[0:13:10.3] AF: Essentially, the difference between a JV and a syndicating is that the investor does not have a right in the LLC from what I understand and that makes it a security that I'm technically selling you as an investor. Because of that, securities exchange commission has to be notified and they have to know who your investor is and all, you know, the basic information on them and me and make sure we're not terrorists, you know, want to make sure we're not unqualified to start a fund in America, right? That's pretty much it.

[0:13:37.7] WS: I appreciate that answer and because I felt like you're doing it very honest and because most people are not going to do it that way unfortunately. But this investor is investing and they expect a return, right? They expect a return on their money and they don't have an active role in the business. Therefore, you are, you're selling theme security.

I'm not an attorney, I don't think you are either so let's put that out there. However, I feel like you are doing it correctly. You know you have an investor who expects a return. And so anyway, I appreciate your transparency and you are doing it the way you're doing it. So, syndicating a six unit what is going to be the most difficult part about that process?

[0:14:14.1] AF: Well it is a small building so you lose one tenant that is 18% of your income, right? So that is tough, I'd rather be doing 25-unit pluses but since we focus on North Jersey that is not always an option. There is a lot more discounted six units for sale than 25 units round here. So, we can make them work. I mean that six unit we bought in January; we are absolutely crushing it on the syndication. We are blowing our models out of the water really on the building, which is great.

You know we are doing better than we had expected. So that is just the way the cookie crumbles on that one. They are not all like that you know most of them we do pretty much a little

bit above where we expect to do and that is how you want to structure them. You don't want to set the bar too high. You know overpromise and under deliver. You just want to do the opposite, you know under promised and over deliver. So, we were doing very well on this building.

We have turned over I think three of the units and the rent role went from a measly \$500 a month to just a little over \$2,000 a month so yeah.

[0:15:09.0] WS: That is a big increase, wow congratulations to you as well for finding that deal. So how are you finding deals like that?

[0:15:16.9] AF: Direct marketing is really our biggest source of deals but also, we do some online marketing. We do billboards, we have a great network of investors and brokers. We find a great deal in Berkeley Heights, the broker, we actually called them because Seth connects with different agents and brokers. We connect with them, it was kind of like, "Hey, how are you doing? You got anything, any pocket listings?" And he knew stuff coming up that you know isn't on the market yet.

One of those calls and he is like, "Yeah actually I am thinking about selling my own building," ended up being a great deal for us and bought 14 units in Berkeley Heights for under \$2 million, which is a phenomenal deal here in North Jersey. So, it is all about who you know really with the commercial real estate the good deals are not sitting on loop net, not in this market at least and so yeah, it is direct mail marketing and knowing the right brokers and whole sellers.

[0:16:05.3] WS: Yeah, for sure but I haven't heard anybody they say they are doing billboards. Tell me about that.

[0:16:10.8] AF: Well I can't say they are a great investment. They did give us a very good deal. So, I actually bought a billboard in downtown Newark right outside the Home Depot thinking you are living near Home Depot, you're like pissed off at how your home keeps breaking and you are ready to sell this thing. So, is says, "We buy houses." It is a big, big billboard and I got a great deal offer and I made 60- grand. So, I am like, "All right awesome, great deal." I made 60 grand.

I am going to take 40 of that and put it back in the billboard, right? And I don't think I got another deal out of it. I am still tracking some things and I think there is still up. You know the cool thing about billboards is when you are done paying it, if they are painted on buildings like some of mine are, you know they don't take it down right away. So, they are still up, we are still getting calls but they are going to probably take it down soon because I didn't renew the contract.

But yeah, marketing is hit or miss, I probably I think I have one more deal brewing from it but it is not a homerun deal and this is a tough market right now to find good deals and it is very hard.

[0:17:06.4] WS: For sure. So, are you self-managing all of your properties?

[0:17:10.4] AF: We have a management company, yep. We have an amazing property manager, Lina, she runs our property management company and we have a good staff available, independent contractors that work with us and so yeah. It is a good well-run repositioning company because a lot of management companies just want to call the plumber when the pipe leaks and collect the rent when it is due and it is not really what we do.

We buy mismanaged buildings. We have to move the bad apples. We have to figure out different ways to make income on the property. We have to figure out ways to get our expenses down and save money every day. So, it is really above and beyond what a normal management company does and that allows us to really control the assets and just do better with the buildings.

[0:17:46.9] WS: Is building your own management company something you recommend to other people who are syndicating deals?

[0:17:53.9] AF: Yes. If you are doing it locally I am pretty unique. A lot of syndicators raise the capital like maybe in New Jersey and New York because there is a lot of wealth here and then they move it into Austin, Texas or North Carolina or Chicago or Buffalo and I get it. There is emerging markets, Atlanta right? There is markets you hear about everyone is going down there and that is great. That is cool. But I am really more about controlling the asset completely overseeing the renovations.

The management of it and really being hands on. I've had a bad experience with management, right? They stole money from me. I told that story. So that kind of scared us straight and we realized, "Wait a minute, we are borrowing people – well we are not borrowing but I am signing on the dotted line for your money. I am putting my name on the line and I am going to go and hire some third-party management company to manage it?"

Now that line right there isn't great for other syndicators but for me, you know I have developed a company here that really works hard to find good deals and manage them to the tee. So that is what we do is we do best. Some guys are really good at managing management companies but to me that is more risk.

[0:18:56.9] WS: Yeah, I have heard both sides of the coin and they both sound favorable, you know? Been the shoes that you are in I guess but it sounds like just like those people that were stealing the money from you are selling as many leases as possible before they left town. I mean it is something to think about, right? You know if you are not going to manage it yourself, how well are you vetting this team and the new company that you are hiring. But tell me Aaron what has been the hardest part of this syndication journey for you from the first deal to now?

[0:19:25.2] AF: Well you know a real syndicate is a long-term investment. It is a five-year investment. So, we started flipping houses and we built a lot of relationships, short term active investors that we are looking for quick returns over a year. Those investors are very different than long term syndicate investors, which tend to be more passive, more laid back and these people are busy living their lives. Running around being doctors, being contractors, being bankers working hard and making their money.

So, you know getting connected with them, teaching them about real estate, explaining what we do. We make money with a refi cash out. That is a tough topic to explain to someone who is not in real estate. So, I have to teach, educate, be a thought leader. Always know exactly what you are talking about, how you make money with your business. Know how you make money with other people's money and if you can explain that properly in a way that people want to listen to then yeah that will help you raise capital.

But the hardest challenge I think has been turning investors over to that new thought process of investing long term but also finding a good deal is really our day to day challenge. We find a good deal of money is pretty quickly raised, it is about finding great investment opportunity.

[0:20:34.6] WS: Nice, it is very difficult to find a good deal right now. I think everybody listening will agree with that and I appreciate how you have elaborated on how you are finding deals right now as well but tell me, how are you preparing for this potential downturn that everybody is talking about?

[0:20:48.6] AF: Well you know we buy in areas that are near train stations that gets you in Manhattan in less than an hour. We are buying good middle of the road properties. We are not buying the fanciest real estate. We are not buying the lowest front real estate. We are really buying class C plus and B real estate. And whether your stocks are up or down, middle class families, working class families, blue collar, white collar families pay they rent when they need to go to work and live in a home.

So, you know my opinion on the recession or low economic times, the top end of the market and the bottom if the market get hit the hardest. You are better off right in the middle. Manhattan is not going anywhere. People are always going to need to go to Manhattan and commute and work there in my opinion at least as far as we can see for the next 20 years and we work off the Manhattan demand to commute to Manhattan and work near train stations here.

And there is a lot of demand. There is really a lack of housing here in North Jersey. There is a huge demand for it. You know a big part of what we are looking for now is misuse of land or property and rezoning it to residential real estate because we really don't need more office space, we need more apartments and then condos for people to live you know?

[0:21:55.2] WS: What is a way that you have recently improved your business that we could apply to ours?

[0:22:00.2] AF: Well, every day I am recalculating just looking at parts of my business trying to work on it and not just in it. So, I mean that alone is a very important skill and to grasp as a business owner, always be recalibrating, always be looking at you know, okay the market has

changed and you know three years ago, we made a million bucks, wholesaling real estate off the sheriff sale auctions. We made hay while the sun shines. Now we are lucky if we make half of that.

And we are financing the same amount of resources to it. So, you know that is tough end of the market right now. So, you got to recognize, you know those opportunities. We jump on it real quick. We put a million dollars into that part of our business very quickly and we turn it around and double it essentially. You know so recognize those opportunities without your end of the market and always knowing your market and seeing what is coming up and then you are not going to be ready for that.

So, the syndications buying discounted apartment buildings, we do see a shortage of housing and a lot of inner-city markets in North Jersey. We see a demand for nicer housing. There is a lot of old real estate here. It needs to be redone, a lot of worn out landlords, people retiring, baby boomers that bought some 30, 40 years ago and tired of self-managing it. So, we look for that opportunity and we improve the buildings and the real estate to give the people a better quality of life because there's a lot of outdated real estate here in Jersey.

[0:23:15.5] WS: What is your best advice for caring for investors so they want to keep investing with you?

[0:23:20.8] AF: Be transparent. You know we communicate a lot every month we have updates. I like that detailed updates that you can understand and really clear transparent information what is going on with the property. People learn a lot about real estate development and management with us. I have good financials. We have really tight books. Our bookkeeper and our account are completely separate company, they are a professional bookkeeping and accounting company. That take care of all our bookkeeping and accounting and tax filings so that's good.

There is a separation of power that is very important to the business. So by those you transfer having good books, good accounting, being quick to get the financials out to our investors and then of course when you are doing the calculations for the returns through your investors be really conservative. You know we have a 20% lease loss meaning we'll take 20% of our net

lease amount coming in and we'll throw in the garbage assuming it will be exhausted on something.

That is super high and that is super conservative, 20% lease loss to 20% net income. You know a conservative measure like that allows us to set the bar, a pretty attainable point and then over deliver, under promise and over deliver.

[0:24:24.1] WS: What is the number one thing that's contributed to your success?

[0:24:27.3] AF: Getting up and working hard every day probably is the biggest thing. I mean I have been a good public speaker but there is no secret man. You know it is busting your ass. I mean you got to work hard. You know there has been days we lose money, you make money as a small business owner and you got to get up every day and out a smile on your face and make things happen. I learn every day in this business. If I am not adapting and learning and growing from my mistakes then I am not a good business owner. So I am not particularly I am not a genius.

I just work hard. I am a decent public speaker. I understand finances. I have a really good business partner, a good team under me but hire the right people too, you know?

[0:25:03.5] WS: Awesome, spoken really well, I think. You got to get up, work hard that is to bet as simple as possible but tell us how you like to give back.

[0:25:11.7] AF: Well, I work with three different Rotary groups here in New Jersey. Rotary is an awesome group, an awesome club to participate with and give back to if you are not a member, definitely join one of your local chapter. We work with MissionCleanWater at bringing clean water to impoverished areas in Africa. And we just worked with pedals for progress, all different types of non-profits that we work with that the Rotary Club generally introduces us too. So definitely been a good experience working with Rotary.

[0:25:37.6] WS: Nice, so Aaron it's been a great show. I have enjoyed just talking about how you are syndicating smaller properties. A lot of people think you can't do that and I appreciate you coming here and saying you know we are doing it and you are making money doing it. So, I

appreciate you talking about that and elaborating but then also importantly tell the listeners how they can get in touch with you?

[0:25:55.5] AF: Sure, so our website is peoplescapitalgroup.com. We're located in Berkeley Heights in New Jersey. So, if you are local, come to one of our networking events. We have it on the second Tuesday of the month and the fourth Friday of the month and I have webinars. We teach how to self-direct your IRA. We teach how we do our syndication in about three different webinars every month. So, our Meetup group is New Jersey Real Estate Network.

And that has over 3300 members on meetup.com that is New Jersey Real Estate Network. So, if you join that network on meetup.com you will get our invites to events and webinars. If you jump on a webinar, if you are not local but our events are really cool and especially if you are looking to network with other likeminded investors, definitely try to come out to one of our events but peoplescapitalgroup.com is our website.

[0:26:43.6] WS: Awesome Aaron, thank you very much.

[0:26:45.5] AF: Thanks Whitney.

[OUTRO]

[0:26:47.1] 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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[END OF INTERVIEW]

[0:27:26.2] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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