EPISODE 426

[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 Mauricio Ramos Thanks for being on the show Mauricio.

[0:00:33.3] MR: Thanks for having me. I appreciate it. It's an honor.

[0:00:36.2] WS: Yeah, I'm looking forward to this conversation and Mauricio is a full-time real estate accredited investor. He's invested in 492 units in Texas. He's a lead sponsor on 48 units acquired in 2019, currently controls over 1.7 million dollars in multi-family assets. You know, thank you again Mauricio for being on the show and tell the listeners a little more about maybe where you're located and what you're focus is right now and I want us to dive in to some details of maybe this 48 units that you purchased.

[0:01:04.9] MR: For sure. Whitney, first of all, thanks for having me, I appreciate it. I'll be happy to share my story with your listeners. I am from Mexico. I grew up in Mexico and I came to the US for college. I came to Texas A&M University, graduated as a civil engineer and worked in construction for 10 years. I did that for 10 years, about year seven, I started looking into real estate, started changing my mindset. You know, just like many other people read *Rich Dad Poor Dad, Cash Flow Quadrant* and *Richest Man in Babylon* and those books really hit me.

That's when I really started looking into – I have to do something else. I don't want to be working for the rest of my life. I have to do something else and found real estate and did a few small deals, a couple of mobile homes, hold a couple of houses and immediately, right away, found multifamily. And really clicked in my head, I'm an engineer so I'm a numbers guy and just the numbers of the – how to scale up the rents minus the expenses and your NOI and the cap rate, all that clicked in my head and I immediately went for it.

I was able to quit my job three years later after doing real estate. Now I'm living in San Antonio, I have invested like you said, in 492 units. I've syndicated 48 which are in McAllen, Texas. I'm doing full time real estate now.

[0:02:34.1] WS: Let me get that right, after three years of doing real estate, you were able to quit your job?

[0:02:38.6] MR: That's correct.

[0:02:39.9] WS: Okay. What were the biggest things that allowed you to do that? Maybe on a high level, you know, was it like one or two deals that are like, "Okay, this deal's big enough." Or what was it that allowed that to happen?

[0:02:52.1] MR: It's snowball effect, I started with the smaller deals, did that first mobile homes, second mobile home and there was definitely a key deal in my career that I was able to wholesale for a six-figure fee. That really helped me to be able to – the money is stopped being the biggest issue to quit my job.

II was able to do that and I was already so involved in real estate, I already own a 10 unit that was bringing me cash flow. I was able to reposition and sell it for a lot more and I had already at my first 16 unit under contract which we syndicated. It was all that in the pipeline that allowed me to quit my job.

[0:03:38.0] WS: Wow, okay. I'd like to get into the 48 units a little bit. Some details about that deal or these deals and maybe you can break it down a little bit. I know just from previous conversation, it was two separate deals but maybe you can just break that down a little bit and I'd love for us to go back to how you found these and just getting into the syndication process.

[0:03:58.5] MR: These deals, we found through direct mail. Off market, we sent post cards to – we get lists from ListSource or other sources where we can find lists and we send them post cards or we skip tracing and cold call them. That's how we found these two properties, 16 unit and 32 unit both of them in McAllen class C properties, great location, both of them so we have been able to reposition the value add was there. Typical mom and pop property just the older couples, they weren't ready to retire and we were able to negotiate a good price just from being able to talk directly to the seller instead of a broker.

For example, one of the 32 unit, the property right next to it, there's a few 32-unit complex, this is right next to each other. The one right next to it was for sale, at the time we bought our property was for sale for probably a good 40% higher price than the one that we bought. He hasn't been able to sell it just because it was through a broker and the broker was asking for so much money. I feel that there's a lot of power when you find a property of market and you're able to deal directly with a seller. You can just have a much better opportunity.

[0:05:24.1] WS: Yeah. For sure, Just the transaction process or tell me about how did the property next door, you know, the price tag that was on that, did this seller know about that, did they understand the price that was on that and how did that affect the conversation?

[0:05:36.9] MR: I don't think either of the owners or sellers knew about each other or about the transactions going on. One of them was of market. He was out of state. So, I doubt he knew how much the one next door was selling for. Again, this older guy, not very tech savvy. I'm pretty sure he wouldn't go on Zillow and check that and also this other guy didn't know about us buying the property because he was an off-market transaction directly with the seller. There was no way for him to know that the other property was selling for about less.

[0:06:08.8] WS: Okay. So, these two separate deals, you found of market, you found through cold calling and postcards. You know, how often are you sending postcards?

[0:06:18.9] MR: We send postcards about probably like 300 or 400 postcards a week. We try to stay on it. Every now and then, you know, there might be a month that we don't send anything but we try to stay on and we write lists with probably 2,000 or 3,000 addresses and we send three or 400 at a time and then just keep working through that list and once we finish that list, we start over. Each owner would get a postcard from us every two months or so.

[0:06:47.2] WS: What's your criteria? Like the types of properties that you're looking for?

[0:06:51.9] MR: We look for class B and class C in tertiary markets such as McAllen. The surrounding, so San Antonio, Kingsville and we try to say San Antonio and south of Texas and between 12 in 40, 50 units. That have to be built in or not earlier than 2005.

[0:07:17.6] WS: Okay, I think there's probably listeners that would say well, you know, why aren't you just joint venturing these deals as supposed to syndicating?

[0:07:25.7] MR: How do you mean joint venturing?

[0:07:27.5] WS: Why wouldn't you just partner with somebody as supposed to syndicating a deal, you know, of this size? Depending on how you're doing, syndicating is probably the legal route to go. But I just think, you know, a lot of people are probably asking or wanting to ask why wouldn't you just do a joint venture, meaning, just partner with somebody as supposed to a syndication?

[0:07:44.5] MR: Yeah, I guess, we haven't really looked into that option and we really haven't found somebody that would be wanting to put like all the money or have been able to just put half and half. We've gone the route where we get five, six, seven investors in each is a small chunk in that we all enjoy the cash flow.

[0:08:05.2] WS: No. I congratulate you on doing it legally. That's awesome. What type of capital did you have to raise for these deals?

[0:08:13.9] MR: The 16 unit was 170,000 and the 32 unit was 330,000.

[0:08:24.1] WS: Okay. How did you start to learn the syndication process? What gave you the confidence to jump into the commercial real estate business and start raising capital?

[0:08:35.1] MR: That's a great question. My 10 unit, when I first started, ii bought a 10 unit on my own. 10 unit apartment complex, seller finance, 0% interest, very low down, low monthly payment. It was a class c property, I don't know if I would buy it again. But I was able to reposition all that so seeing that process gave me that confidence to, "All right. I can do this, right? I did it with my own money and it turned out pretty good."

That was also I guess a tool or something I could show on my resume to my investor like hey, I've done this, it turned out pretty well, I can do it, you know, with our money instead of just my money. And I've read plenty of books. I listen to a lot of good podcasts like yourself, like your podcast and also, joined a mentoring group in Dallas, Texas so that really helped me and built that confidence and learn how to underwrite, learn how to vet all these deals, how to syndicate properly, legally.

How to involve the right members to your team so the mix of all that allowed me to go into the next level which was syndication at the time.

[0:09:46.7] WS: What's the business plan for the 16 and 32 unit?

[0:09:50.8] MR: Both of them is to tell them exit within three to five years. We're a year in now, probably 2021, we're going to start looking into exit and see how the market looks.

[0:10:04.1] WS: Okay, what's the big upside? What's the value ad on these properties?

[0:10:09.0] MR: Rents were very low. They were probably between 150 and $200 under market. Of course, we needed to do some work on these units so we can increase the rent. There was no laundry room and both of them had a laundry room that wasn't being used. We were able to implement rugs and start back charging for water. And then we're able to add some amenities on the outside, the 16 unit were actually brought in an artist that painted a mural.

There's a big wall. It's in a corner. It's a very good – very visible location so this artist painted a mural on this wall so this allowed us to separate ourselves from all the other complexes around the area. That gives the opportunity to the tenants and say, "All right, I want to live here because all the other properties look the same but this one just looks nicer."

They're willing to pay that extra maybe 10, $15 compared to the other units around him. Those were the items that we have implemented so far. As well as you know, exterior lighting, LED lighting, lower the expenses on electricity, better management of course. Previously they were being managed by the owners, self-managed.

Basically, no system. All those items have definitely reflected on the NOI.

[0:11:31.0] WS: Where do you see your business going from now till you know say five years from now? Is this your focus like you said between like 12 to 50-unit properties and that's kind off your niche, you hope to keep hammering those size properties?

[0:11:45.0] MR: For now, yes. One of the reasons that we like working in this space is we see that there's a lot of people in the one to four units. There's a lot of people in the single-family space, very competitive, and then you go to the other side of the spectrum and then you'd see a lot of big syndicators, a lot of institutional money on the 150 plus units. On a smaller scale like we are right now, it's hard to compete with people from California, people from Dallas, people from Florida that bring in a lot of money and they're happy with like 4% return.

It's hard to compete with that at the same time, you know, the come in with a million-dollar earnest money going hard day one. How do you beat that, right? We see that there's a lot less people in thee between the space because for the institutional money at 32 units, it doesn't make sense for the single-family guy at 32 units. I mean, they dream about one-day graduating into a 16 unit. It's a sweet spot.

We're expanding a little bit into like the 60, 70 units. But for now, we definitely love this space, we're being able to – these two properties in McAllen are close to each other, now, we're adding a nine unit which probably by itself, we wouldn't buy but just because it's so close to these 48 units, it just makes sense. I mean, we're vertically integrated so it's just adding nine more units to our portfolio, similar investors. Our investors are familiar with the area already so it just makes sense to continue expanding, same in San Antonio.

[0:13:16.5] WS: You're self-managing as well?

[0:13:18.5] MR: Yes. We're vertically integrated. I mean, we have a team and then we have our software management software and that's how we work it out.

[0:13:28.6] WS: Nice. Tell me your thought process behind deciding to self-manage as supposed to getting third party.

[0:13:35.2] MR: That's a great question. At the beginning, we had third party property management. We went through two property managers and some of the biggest challenges that we found where there was no sense of urgency for them to lease a unit at all. We posted it on Zillow. We posted it in a million webpages and it's not working and they would find, you know, 20 things to blame but it's never them.

There was a few things, a few complaints from the residents that things that were not getting taken care of. So, we had to step in and start taking care of other things that we felt it was their responsibility. It became a combination of us taking care of some stuff already and also having to almost micro-manage the manager. So, if you're knee deep in it, might as well just take over, right?

Why are you going to be paying somebody for pretty much what we were not doing was collect rents and post eviction notices if there was any and like maintenance requests, that's it. That's not hard. We just took over it and we're doing good. We're doing pretty good.

[0:14:47.3] WS: Have you found that difficult to implement those systems and processes of managing?

[0:14:53.4] MR: It's a work in progress honestly. I mean, we're learning as we go, like I mentioned, the 10 unit definitely helped me because that one I self-manage because it was 10 units. I went through several of the typical scenarios that you see on an apartment complex.

That really helped me, having that previous experience and then implementing into this on. It's still a work in progress honestly, we're still learning, we're still every now and then making phone call to a more experienced investor and say "Hey, what do you do when this happens?" And still making progress.

[0:15:24.1] WS: I'm not sure that that ever stops, you know? You get to a spot to where you don't need to know somebody that's ahead of you, you know? Yeah, no doubt about it. Well, you know, tell me, are you looking in one market or how many markets are you trying to mailing to and cold calling and stuff?

[0:15:40.9] MR: Most of it is San Antonio and south, definitely looking in San Antonio. It's a little competitive in surroundings. You know, San Antonio has like Converse and Live Oak and other cities that you don 't even notice when you drive from one to the other, it's all together.All these cities around San Antonio pretty much Bexar County.

And also, Kingsville which is a college town, Texas A&M University Kingsville is down there, pretty strong university. We like that area and also Rio Grande Valley which goes pretty much from Brownsville, Texas all the way through Edinberg, McAllen, Pharr, Mission, Rio Grande City, Rhome Texas is all that is called Rio Grande Valley. There are some areas better than others so we market to those areas. Now we're starting to do a little bit of Houston as well.

[0:16:30.5] WS: Tell me about – how many team members are looking to or helping you on the acquisition side versus the management side?

[0:16:38.2] MR: With me, you know, the lead person, then I have a business partner who is Adrian, he is actually taking care of the management side and basically, he's the operations manager, I have an assistant who helps me on thee marketing side to send all the post card, get phone calls, all that marketing side of it, the admin side of it. I analyze the deals and put the offers together, send it to her and then she might also mail out and follow up with the sellers and then also, on site, we have a person that helps us with leasing the units, showing the units and just taking care of the day to day operations of the property.

[0:17:19.9] WS: You know, now that you've done a few syndications, you know, what would you tell somebody that's looking to get into the multifamily syndication or just getting started?

[0:17:27.7] MR: Just take action. I see a lot of people, you know, "Hey, I want to do this, I've been looking into this for three years." Maybe they've been to some seminars, I've even seen some people that have paid for the 20 some thousand dollars for the seminars and till just waiting on the deal to magically happen. Just take action.

Choose one market, either go talk to brokers or do some kind of direct mailing and some kind of marketing and take action, stick with it for six months. And you'll find a deal and don't worry about how you're going to 1031 out of that deal in two years or three. Worry about how to find the deal, then worry about how to get on the contract and just keep going with the process step by step.

I see a lot of people wanting to see the entire plan laid out before they take the first step and then just time goes by and they don't do anything.

[0:18:22.5] WS: It's like building an airplane while you're flying it, right?

[0:18:23.9] MR: Pretty much, yeah. Revealing the pressure as you go down.

[0:18:27.4] WS: Yeah, that's' right. What's been the hardest part of the syndication process or business for you?

[0:18:32.9] MR: Learning things that I wasn't familiar with before. For example, that second deal – that first deal that we did was just private lender, the second deal that we did was agency. For example, on that one, learning just the agency process, you know, it's an entire job in itself, how to just deal with from acquisition all the paperwork that they need and then maintain all that paperwork through the ownership of the property.

For example, on that property, we borrowed the money to rehab the units so we have to submit payment applications every month. All that process –

[0:19:08.7] WS: Is there anything that you could tell somebody that hasn't done an agency, hasn't used agency debt yet, you know, maybe something to help them be prepared for that?

[0:19:15.5] MR: It's daunting to the eyes to see the lists and what you need to do but again, just start by the first step and just continue doing it and it's not impossible. It's not easy that if it was easy, everybody will be doing it, right? You start on the first step and you continue doing it, it requires some certain skills of organization in being able to submit all the paperwork and some math and some spreadsheets but it's not impossible.

[0:19:43.6] WS: How do you prepare for this potential downturn that everybody's talking about?

[0:19:47.2] MR: Great question. Honestly, underwriting, very conservatively. Don't go crazy with your exit cap rates. Don't assume that just because a property has been 100% occupied, you're going to be able to don't underwrite 100% occupied or even 95, you know? Just being conservative, don't rush into a deal just because it looks nice, make sure it makes sense. Run your stress test, stress test your deals. Make sure it makes sense, make sure it's in a good location. You're not buying just because it's a hot market and the city is in the middle of nowhere, four hours from the next city. Those would be some –

[0:20:25.3] WS: What's one way you stress test the deal to make sure that it makes sense?

[0:20:29.7] MR: I would want to see that I'm still breaking even like right around 65 or 70 and I'm still breaking even. Occupancy, if my occupancy for some reason comes down to 65 or 70%, I'm still breaking even, I'm not having to come out of pocket for that. That's one way, you want to have a little bit of reserves on your bank account for that particular deal just in case rainy day comes in then you're not having to do a capital call right away.

[0:20:57.6] WS: Right. What is a way you have recently improved your business that we could apply to ours?

[0:21:02.8] MR: Implementing systems it might not be a super new thing but implementing systems like CallRail, like Podio, Mailchimp. Also learning how to delegate that is something that I struggle all the time. I have an assistant now and slowly I have been giving her more. And more duties and sometimes she even has to take him away from me but learning how to delegate them is definitely a good thing to do to grow to the next level.

[0:21:31.9] WS: Nice. What is your best advice for caring for investors so they want to come back to the next deal?

[0:21:39.2] MR: So, to give you an example there was a quarter in that 16 unit that we had a higher turnover than expected. So, we as syndicators, we had a few pieces of the pie. We were getting money from the LP side. We are getting money from the GP side and also from the asset management side. So there was an order in which we decided to forfeit our asset management fee in order for the investor to see a little better return.

So, if it takes me not getting my full compensation distribution so my investors can be happy, it's okay. Another example, there was a 28 unit that we had under contract for a little bit earlier this year and the market has shifted. The lending environment has shifted like around September. So, when we had under contract the interest went up and their returns they were pretty slim compared to what we wanted to give to our investors.

So, we had incurred in a lot of expenses in the lender fees in all the inspections and earnest money deposit and we probably could have gone with the deal and made an average deal. But that is not what we want to do. So, we decided to back out and lose the money that we had invested in the deal and protect our investors. That was not the return that we want to give to our investors. So, we decided to back out. We share the story with some of our investors and they were pretty proud that we are willing to take a hit so they don't take a hit.

[0:23:14.5] WS: Yeah that's awesome and tell us how you like to give back?

[0:23:18.7] MR: Anonymously. I am a Christian and there is a verse and a chapter, Mathew six, it speaks about not telling your right hand what your left hand does. So, I do give back to my church and other charities. I just don't parade it on social media.

[0:23:35.1] WS: Nice. No, I appreciate that. I appreciate you sharing that as well. Tell the listeners how they can get in touch with you?

[0:23:41.1] MR: So, I am on Instagram as @maurms. I am very active there. My email address is mauricio@demedicigroup.com. Demedici is the Italian last name. And my webpage is www.demedicigroup.com.

[END OF INTERVIEW]

[0:24:07.3] 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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