

EPISODE 450**[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 Angelo Christian. Thanks for being on the show again, Angelo.

[00:00:33] AC: Yeah. Absolutely, man, I'm so happy to be on here, man. I love talking investments and real estate. So, thank you so much for having me, Whitney.

[00:00:40] WS: No, I'm honored to have you back on the show. A little about Angelo, he's the CEO of Christian Financial. He has helped tens of thousands of people with his influential coaching, Real Estate University, wealth management, and mortgage banking. He is also the author of *King of Real Estate* and *10 Habits of Highly Successful Loan Originators* and has been featured in Bloomberg, CNN, Good Morning America, Great Day Houston, Houston Chronicle, Business Insider, and numerous podcasts.

Angelo, thank you very much for your time. I mean, it's always an honor to have you on the show. I know you're an expert in lending and in that aspect. I know just before we started recording, we were talking about just how you get confidence out on seeing just there's tons of ground up construction, and I'm just looking forward to this conversation. If there's any kind of updates you want to tell the listeners, I'm happy for you to give them an update, and then let's jump in.

[00:01:33] AC: Absolutely. I mean, I think that to your point, what we're seeing a lot right now in 2020 is that the pickings for multifamily are kind of running sparse, and you're seeing investors either lower their standards for investment class, going to B or C type properties. Or they're keeping their cash on the sidelines. What I've seen a lot of the big players, what they're starting to do is do ground up construction, which we actually specialize in with private equity and also FHA. They have some nominal terms. In fact, we have about six deals that are ranging from 200 to 1,000-unit multifamily going right now with private equity and FHA.

FHA is actually in the ground up construction as well, and you can get phenomenal terms; 85% loan and cost, 40-year amortizations, interest rates in the threes. There's also – If you think about that, you can build it how you want it. Sometimes, if you have control of the building side, you can also do it at a much cheaper cost per door.

Basically, the major advantage I think right now, what I'm seeing in the marketplace, is that investors can actually build cheaper than buying existing multifamily, because there's not a lot of properties out there right now, and that cap rates – I mean, why would you buy something that has a 4 or 5% cap rate? You can build it the way you want and have a higher cap rate with cheaper cost of construction. That's one of the things that we really specialize big time here with investors with our private equity side and with FHA, is doing ground up construction. It's a phenomenal opportunity, and that way you can actually get in cheaper to get –.

Because, the thing is that cash on cash, if you're an investor, you want that yield to be as high as possible, preferably double digit. What I'm seeing a lot right now in the marketplaces, cap rate's 4 or 5%. Okay. After you pay the interest on the debt, there's not really that you're netting 1%. That's not worth it, man. No. It's a good solution. We specialize on ground up construction. We work with big investors. Like I said, we have about \$250 million working right now just on these ground up constructions as of January 2020.

[00:03:45] WS: Wow! Okay. I've heard of different groups talking about going the ground up construction route where they've just been focused on, say, value-add multifamily. But now, maybe they want to consider that. But what are some maybe potential mistakes that you see people making, moving from value-add multifamily to a ground up construction when they really haven't been in that ground up before?

[00:04:07] AC: Well, sure. I mean, obviously, if you haven't done that before, you have to be very careful with the land that you select, location. We had one the other day that the person bought the land. I don't know how they did this. We weren't involved with them, but it was in a major floodplain. Then it was just they have to pass off that insurance cost off of the end buyers and the end users that have been leasing it out. He got –

One of the things that I think you're obviously need to be very careful about the site location and then the construction company that you actually use. You definitely want to use – one of the companies that we work with closely. You can look them up as Pelican Builders. They're very famous in the Southwest region of the country for building multifamily. You want to obviously work with a reputable builder or construction company that can actually pull this off with a good quality job and then also for a good price. I think that those are going to be the two main aspects.

One thing that I want to go back to, I was talking about Grant Cardone earlier. You can see that, and obviously he's – Probably your viewers, followers know who he is, and he runs a large syndication for multifamily. You can see like most of his investment class has been in the southern hemisphere of the United States, and he's basically – If you look at some of the stuff, he is looking at buying stuff right now in Maryland because he can't find any deals. Normally, he's in Florida, Georgia, the Carolinas, Texas.

He's not finding. He's having to basically revamp some of his investment criteria. He would never buy anything in Maryland. The fact that he's even considering that right now is telling you that it's drying up. You have trillions of dollars chasing after the same thing that everyone's trying to find yield, and it's like, "Hey, man! Ground up construction sounds good."

Also, another really interesting thing that we've gotten heavy into is senior living. Senior living is a wonderful investment, and then we can also do with the agencies through Fannie Mae.

[00:06:13] WS: Do you see ground up for senior living as well or more of that?

[00:06:15] AC: Yup, we do. We do. We're actually seeing it. That's something I'm personally

involved with as well is I like the senior living investments. With my own portfolio that I'm investing in, I really like the senior living and I think it's a great alternative to consider, in addition to multifamily. The yields are also – Have been shown to be very attractive.

The other thing is that if you think about it, and from my experience that there's a little bit more security in my opinion dealing with senior living than multifamily, because obviously renters, they – I think everyone has the ideal goal to own a home. A multifamily can sometimes can be viewed as a pass-through. Whereas senior living, that's normally where they go towards the end of their life, and the baby boomers, they continue to retire at the rate that they are for the census. That has a lot more stability, and you can also work with a lot of government agencies to collect some of the rental income off of that.

I mean, they're obviously both good. But I think senior living is also very attractive.

[00:07:21] WS: Yeah. It brings up another point, and I think that you can speak to from your expertise. But the listener is thinking about, "Well, okay. Angelo, I can tell it's really difficult for me to find multifamily deals. Maybe I should consider ground up construction." What about the financing piece of that? How is that going to differ if we're looking to get into ground up, as opposed to value-add multifamily?

[00:07:44] AC: Well, yes. Like I said, I mean, the best option is it all depends on the project. You can go the government route. You can use FHA, as an example. That has very attractive terms. You can actually amazingly get up to 85% loan to cost. So, you have a very low outlay. You can go a 40-year amortization. With a 3.5% interest rate, you get a very attractive cap rate. That's very attractive, because you have a very long amortization.

Another thing that you can build in which we're talking about earlier is the future value-add, where let's say you want to lock in as long as that 85% LTC stays in place for the future valuation of property attached a line of credit to it to pay out your investors if you're running a syndication. For example, we have one here in Houston. It's a \$20 million project. What they've done is they've requested a \$3 million credit line to be added to it. What happens is that is evaluated every three years. As long as they stay within that 85% loan to value, they can draw more funds and then pay out their investors.

When you have that type of situation, it can be very attractive. When we looked at this particular investment group, they were looking at purchasing existing multifamily in Houston. It was about 110,000 a door, and their cost for construction was at 98,000 a door. They're able to get it for a cheaper price. With those terms, it's almost like a no-brainer, right?

I think the key thing is obviously having the funding in place and then having your builder and then your land. To me, it's something that we're seeing a lot of syndicators that I'm working with here in Houston and all over the country that they're – I'm seeing more deal flow that's asking about ground up construction.

[00:09:39] WS: What about finding the land? I know the land in some markets is so expensive that we can't consider ground up, because the land cost is so high.

[00:09:50] AC: Right. I mean, that's something that obviously is critical. I think that having a good broker that you know or whether it's off market, that is a concern. I mean, I agree. I mean, because if you overpay, whether it's for your construction or your land, I mean, you're going to get in trouble. So, you just have to be I would say – I think that it's kind of like what Warren Buffett says. One of the things I think investors, we make a lot of mistakes. I'm guilty of it too, is that we try to swing at every pitch. You have to wait for your pitch and look for the opportunities, whether that's in foreclosed properties or IRS seizures or tax liens.

If you're trying to find a deal on land or off market, there's a lot of private listings if you get in good with a lot of the – Like here in Houston, there's some really good brokers that's focused on the commercial side, and they get things sent to them before it goes on the market. That's who I really work with is working – Because the thing is everyone's looking at LoopNet, and that's okay. But really, the big-time deals are not on LoopNet. You have to really get in good with a broker or whether you have more insider information. I think that you're right, because if you overpay for the land, then it's going to affect everything.

[00:11:13] WS: Right. When we come to you for the debt for ground up construction, if we have multifamily experience, so let's say value-add multifamily experience but no ground up construction, are we going to have to find another teammate or a team member or somebody

that has that experience? Or how's that going to be viewed when we're coming for them?

[00:11:31] AC: No. I mean, no. I mean, here is the thing. No. Even if it's your first time as a ground up construction, that's okay. But you obviously have the sponsors all have to have some type of noteworthy experience in investing. We do care. The sponsors do matter. It's not like it can just be a Joe Schmoe. We're going to be looking at the personal financial statements, credit, few things that are important here; the liquidity of the guarantors. This is a full recourse loan. Fannie Mae is nonrecourse, and you're dealing with that for now.

Let me say this. With the FHA, it's full recourse. If we go the private equity route, we have some nonrecourse stuff too. We have to really understand what the hell the strategy or the intentions of the investment group is, what they're trying to do, because some investors, they don't want to do recourse. We do a lot of horizontal funding for developers, and sometimes they don't want it. They want nonrecourse loans. We offer nonrecourse for developers. I don't know if any of your followers do anything with horizontal. We work a lot with developers, large developers to build out the horizontal funding. But it just depends, right? I mean, being that it is your first time and you're doing multifamily deals or ground up construction, that's okay. But again, the strength of the sponsor is critical.

[00:12:50] WS: Yes. You mentioned horizontal a couple times. What do you mean when you say that? Just –

[00:12:53] AC: Oh! I apologize. Yeah. You have real estate developers, whether they're doing commercial or residential development for single-family or commercial, that's when you're basically purchasing the raw land and getting the funding for building up roads, the development, the sewer. We get funding to developers or let's say that we do a lot of developers that are building out multi master-planned communities, and they need funding for, let's just say, \$100 million.

A lot of the times, they don't want a personal guarantee added to that to come out, in case the deal falls apart. So, we do a lot of nonrecourse for developers as well and we deal with a lot of large developers. That's called horizontal funding, right? Vertical funding is obviously when you're building residential or commercial structures on top of the horizontal, which is the land.

Those are two different types of funding.

[00:13:51] WS: Good and that's good to know. Then the listener who's looking to go into this, okay, they have multifamily experience. Any other way that we can be presented well to be able to get the type of debt there that we need or a way that when we present to get the type of lending. Even if we want nonrecourse versus recourse, is there going to be anything else? Why would we get recourse, as opposed to going nonrecourse?

[00:14:17] AC: Well, I mean, if you're new at this or you don't have the capital, like for example, FHA, if you did ground up constructions at 85%, private equity is like 70% loan to cost. That's a massive difference in the capital injection from the sponsor or the investor. If you're talking about, let's say you're doing a \$20 million deal in one of those 15% injection, that's three million versus the other. The other deal, they would want 30%. So that would be six million. The sponsors may not have a liquidity to cover that.

Also, it depends on their financial situation. If also the sponsors have a tremendous amount of assets personally, they may not want a recourse loan. We have some investors that have – Their net worth is several hundred million dollars. If the deal falls apart, that means that the bank or the investor would come after them personally. It just depends on –

We have one group that we work with. One of the investors is worth almost a billion dollars personally. He has to make sure that anything he does is nonrecourse, right? For whatever reason, if the deal goes sour, he doesn't want – Someone coming after him for his assets. So, it just depends. If you're new, you're probably going to have to do a full recourse loan. This is how it works.

As far as packaging, yeah, I mean, there's firms out there that we work with. I know we talked about this before in your show that you're right, is very – If you don't have your stuff together, your paperwork, your pitch deck to the banker, to the lender, I mean, you're going to get denied. That's just the way it is. If you don't have all your financials, everything in place, lenders don't – Let me tell you. Lenders don't like it when you don't have your stuff together. You're not organized or your credit is not good or – You have to –

There's firms out there that I can recommend to you, and they can package up everything to a financial plan. That is a very, very important thing. You have one chance for the lender. They're not going to fool around. I don't have the time for it personally. If the guy doesn't have his stuff together and he's asking for a \$20 million deal or a \$50 million project and he doesn't know where his bank account is or who doesn't know his credit. He can't – No. These are mega deals, serious business, and you have to have a full package.

[00:16:42] WS: We can actually hire somebody that will help us develop that?

[00:16:46] AC: You really do. I mean, I think that there are a lot of firms that we work with that do that. Now, obviously, seasoned investors, they already have all this together. But to the new viewers out there, yes, there's firms out there that we work with in New York, and that's what they do. They basically – Before anything ever goes to the underwriter, they view and vet everything, and they package it all up, and they check every single document. They would actually write the business plan for you, the executive summary. Get all your financials in order. Then they submit it over to us or to the underwriter.

For some people, that is a good thing I will say, because some people, they have the experience. They have a liquidity. But for whatever reason, they're not organized and they're all over the place and they need someone. There's an intermediary that kind of siphon them through the process.

[00:17:38] WS: How would we find somebody like that, if the listener is interested in that, and do you know about the cost?

[00:17:44] AC: Yeah. Generally, from what I'm seeing there, I mean, independent, they go off of the size of the project. One of the – There's a few groups that we work with, Carlton, and I can I can provide – I can email you over this if you want to put it on the links. Yeah, Carlton's one of them. There's another one, Madison Realty Capital. These are out of New York. But generally, from what I'm seeing that they – Based on the size of the project, they normally want a retainer start to like 10,000. Then there's usually some type of value-add for the size of the deal, and that can be actually one of the things that can be financed into the loan too, which is kind of cool.

Let's say you're doing a \$20 million deal, and they charge 50 basis points, which is \$100,000, that can be added into the loan, for example. But I think that if it increases your probability of getting funded drastically, then it's worth it. But if you are a very seasoned investor and you have a whole team like Grant Cardone or any of these other people, they have a whole team that does everything. They don't need. But, I mean, if you're trying to get into it and you're trying to get into some of the bigger deals, yeah, I think it's definitely worth it.

[00:19:01] WS: What kind of pushback have you seen when there's a newer person coming into ground up development, and they're having to get a recourse loan or recourse debt? As far as raising the capital from investors, it seems like that would make it much more difficult.

[00:19:17] AC: Yeah. If you're a new investor and you're trying to raise capital and you're doing ground up construction, a lot of these syndicators, what the investor is looking at is obviously performance. I haven't seen that. Most of the firms that I work with, they're very seasoned.

We've worked with a few that have tried to get on board, and they had a very hard time getting the funding because they – People just didn't want to invest in the fund, because it didn't have a track record, right? When you're trying to solicit investors, that's the first thing you look at is show me your track record and what type of yields are you paying out. What's the security?

Yeah, I mean, if you – What I would say is typically, if you're starting off and you're just in the beginning of this, you're probably going to have to invest a lot of your own capital into this to show proof positive to the marketplace that you have major skin in the game to ease investor's concerns and fears of anything going south, right? Because they're not going to want to back you or funding a new project if you don't have significant capital and you don't have a track record.

I would say if you're just new starting, yeah, ground up construction could be tough. It could be tough. I would say if you're new, you probably want to start with a small project and then kind of ladder your way into, because that – I don't know. I haven't seen that before though where somebody is raising a lot of money and they're new and they're trying to do a big deal. The banks aren't going to like that.

[00:20:58] WS: Right. Yeah, I was just thinking about the recourse debt and how that's going to be seen by investors.

[00:21:04] AC: I mean, typically, the way that – It depends on how they're structured, whether they're credited or non-accredited. Typically, there's going to be a signer on the loan. Because of the way that they're raising the money, whether it's a C or an A or 503, that pass through to the investors. They actually never are on the hook for the PG. It's whoever the signer is of the note, right? For example, if I have a fund that I raised \$10 million and I get money from you and the loan goes into the fall, I'm the signer on the loan. Not you. Fall back never comes to you. You're the investor, right?

But how the loan can be structured is that you might have an entity that has many limited partners, but those partners are actually not going to sign on the note. It could be one or two, maybe up to four signers, and those are the ones who will have the – That's how the investors are protected. They'll never – I haven't seen a deal worthy of that where the actual investor is a limited partner. It was on the hook. It was a recourse loan. No one would do that.

[00:22:13] WS: Right. I would have not. A few more questions before we run out of time, Angelo. How are you prepared for the potential downturn that everyone's talking about?

[00:22:24] AC: Well, yeah, that's a great question. One of the things that with my experience investing in the markets, and we also deal with trading a lot too with futures. As a hedge or small hedge, what we always do is we always sell futures every quarter with the S&P and the Nasdaq. It's kind of like ahead. You can sell calls. If the volatility is very high, you can sell futures. For example, if we have a hundred million dollars in lending exposed, we may sell futures. Short the futures of the S&P or the Nasdaq or sell calls to up to \$5 million.

Basically, it acts as an insurance policy in the event of a downturn. It's not a complete hedge. Usually, 5 to 10% because you're right. The market is at all-time highs. Real estate, stock market. There's a lot of political things going on right now, especially you saw with Iran and all these things. So, you don't know, right? You always have to have some type of hedge in place in the event that something happens.

I don't know if any of your investors are involved in the markets with you know stock or futures. But we use the future, because the futures is the most liquid market; the US futures. That's really a trillion-dollar industry where all the money goes. That's what we do.

[00:23:51] WS: What's a way that you've recently improved your business that we could apply to ours?

[00:23:54] AC: Yeah. One of the things I'm going say, I don't know if any of your followers – Do they do anything with – Because another thing that I want to mention that we – Another asset class that we've got involved into to diversify our portfolio is mobile home parks, investing and funding mobile home parks and then also in this –

[00:24:12] WS: Definitely. There's definitely some listeners.

[00:24:14] AC: Then self-storage. So self-storage and mobile home parks is some things that I've gotten involved in personally and that we funded. Then you can actually get SBA funding. It's a very attractive terms. One of the things that's helped improve our business is diversifying the portfolio. Some of your viewers may find that mobile home parks are another great opportunity, another attractive yield investment, and self-storage.

Again, going back to that, multifamily is kind of thin. What about mobile home parks and destination areas like Florida, right outside of Orlando? I picked up a \$3 million mobile home park and I'm getting like a 12% cap rate on it. I mean, those type of things that I think that viewers – There's a lot of stuff out there and a lot of people don't think about mobile home parks. Or obviously, self-storage is huge too. But those are things that have helped us and maybe help you or your followers. We fund those. We love mobile home parks.

[00:25:16] WS: What's the number one thing that's contributed to your success?

[00:25:19] AC: That's a great question, Whitney. The thing is I always want to be a student in learning, right? I'm always trying to figure out and learn more. I hope that since the last time you spoke to me that I seem more knowledgeable because I always realize that you don't know

what you don't know, and you always have to be searching and seeking to learn more. There's so much information out there, and you can never stop learning. You have to be a learning machine and be a master of your space. Whether you're running a podcast, whether you're an investor, you're a lender.

If you stop learning and you think that's all there is, you're wrong. There's so much out there to learn, and the more knowledge that you have just like Warren Buffett talks about, the more that you can earn, if you apply it. I think that in the beginning of my career where I made a lot of mistakes is I would tell investors or clients, "No, that's not available. Sorry, I can't help you. No, we don't offer that. No, you can't do that." I never really pushed myself to figure out if it was really out there.

One of the things I've changed in last five years that's helped me is that I really push to find out if it's really out there. Is it available? Is there a market out there? Can we create a market? Can a market be created? Right now, I'm seeing a big push for container homes. You may have heard of container homes.

[00:26:47] WS: A little bit.

[00:26:48] AC: Yeah. But they're having a hard time getting funding, and someone approached me about a \$3 million container home project in Florida. Before, I was like, "No, you can't do container homes, because the agencies haven't picked it up." But there actually are private equity that do container home funding, right? I would say always be a student. Be a learning machine. Just learn as much as you can.

[00:27:09] WS: I actually got to see a container home when I was in Florida not too long ago. Very interesting.

[00:27:15] AC: Yeah, it's very interesting. It's crazy, man. I think that you're seeing builders, investors. If the agency has picked that up like FHA or Fannie, I mean, it's going to take off. It's going to go crazy, man.

[00:27:27] WS: How do you educate yourself or stay up on things and learn, find new things?

[00:27:31] AC: Yeah. I mean, always reading, learning online, going to conferences. You go to conferences. Go to meetups. I would highly recommend it. If you're ever doing a meetup, please invite me. I'll be there. I think that we're hosting a bunch meetups this year, in fact, to meet more people and learn more. Go to these events in Vegas or in Orlando. There's so much to be learned from building relationships like meeting you, and maybe one day you host an event. I'll be there or I'll host an event, and you come to mine and you get around the same like-minded people, building those relationships, going to those events.

This year, I'm scheduled to like 20 events. I want to go to as many events as I can to learn, learn, learn. Meet other people that know, because the knowledge is out there. The information is out there. Maybe I don't know it, so somebody else has that information. Instead of being conceited and say, "Oh! I know everything," no, you don't know everything. Go meet other people that are doing it and learn from them. See how are they doing it. I think that's a huge thing.

[00:28:26] WS: For sure. Then how do you like to give back?

[00:28:29] AC: Yeah. That's a huge thing. The biggest thing with me I always talk about, you have Maslow's Hierarchy. I think the first thing is you have to get stabilized. I had to get stabilized with my life. I grew up very poor. I had nothing. After you and your company gets stabilized, you have to contribute and give back. The biggest thing that I always make sure that I give back to my team, I make sure my team is taken care of financially, spiritually, mentally, my family, my children, and then all of my partners, my vendors.

Then lastly, we have Angelo Christian Foundation, which is giving back to the world. No child left behind. Helping children with the foundation, either children that they've been in a tough childhood, they've been evicted, abandoned. We give back. We give a percentage of our revenue or profits back to that foundation. That's our order is taking care of our team, the family, our investors, our clients, and then the Angelo Christian Foundation.

[00:29:29] WS: Awesome. Thank you for sharing that and giving back in that way. Angelo, tell the listeners how they can get in touch with you and learn more about you.

[00:29:34] AC: Absolutely, yeah. Guys, if you ever need real estate funding, we cater to investors. We love working with investors all over the country, Angelo Christian Financial. You can actually reach us at (832) 431-6331 or officialangelochristian.com is our website. You can check us out on Instagram @officialangelochristian, or our YouTube channel, Angelo Christian. Please give us a call. We love to help any investors out there with real estate funding.

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[00:30:03] 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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