

EPISODE 479**[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 Dmitriy Chebotarev. Thanks for being on the show, Dmitriy.

[00:00:34] DC: Thanks, Whitney.

[00:00:35] WS: Yeah. I'm happy to have you on the show. You're another operator that's out there doing it and making it happen and from one end of the country to the other. I know you have some skills that you can share with us today to make that happen.

But a little about Dmitriy, he's the Founder and Manager of the General Partner, Oxford Fund Managers, LLC. Also, Founder, CEO, and Chairman, Vosht Capital, an Orange County-based real estate venture capital and private equity investment company. He oversees all business development, operations, and investor relations in the firm's occupied markets, which include real estate venture capital and private equity revenue-based value-add deals.

He guides the company's acquisition strategy and mentors the management team in practices, processes, and techniques that facilitate and promote strong investor-focused relationships. He lives in Orange County, California with his wife and two daughters.

Dmitriy, thank you very much for your time. Give myself and the listeners a little more about you

and what you all are up to right now in your business, and let's dive in.

[00:01:36] DC: Yeah. Well, I've really got to update that bio because I actually have three daughters now.

[00:01:40] WS: Do you?

[00:01:42] DC: Yeah. Just a month-and-a-half-old, so yeah.

[00:01:45] WS: Congratulations on that. We don't want to leave her out.

[00:01:48] DC: Definitely. Definitely. Yes. I'm here in Orange County, California, in Newport Beach. We have an office in Las Vegas as well and we're opening up an office in Boston. Jumping right into it, recently, we've been buying properties out in Massachusetts. But last year, we bought a property, a 55,000 square-foot building, about 40, 45 minutes outside of Boston, so major metropolitan market. Leased it up, just cash-flowing it in all equity. Generally, we'll buy things in all equity on the front end and then refy on the back end. I'm happy to talk about why we do that. People ask me all the time.

Right now, we're buying a 450,000 square-foot industrial campus, eight buildings. We focus on all class A, class B, and just undervalued assets.

[00:02:38] WS: The industrial type property that you're looking for, what is that exactly? What type of property is that, and who's your typical tenant?

[00:02:46] DC: We have a lot of different tenants that we talk to. Since we're looking at class A and class B – I will give you an example. We're buying this property right now. We're buying it from a public company, a cereal manufacturer actually. What happened was one – or I'm not going to name the names, because I don't – we're closing out the deal. But one cereal manufacturer got bought out by another cereal manufacturer. They're downsizing the real estate. We got in there. We have a strong transaction history, strong financials. We got the deal locked up at just a steal of a price. It's a campus that's eight buildings, a huge type of layout, lots of utility. We're talking to –

On the large side public companies like food manufacturers, logistics companies, then on the kind of midmarket range, there's like public marijuana companies. There's smaller manufacturers, plastics manufacturers, steel, and things of that sort. Then on the lower end, they're smaller, 50 to 70,000 square-foot tenants that do anything from self-storage to, you name it, right?

[00:04:05] WS: Okay. I'd like to back up just a little bit, and maybe you give us just the two or three-minute version of like how you got into the syndication business and buying these large industrial properties, because not everybody can begin there. I always love hearing just a couple minutes of – you know, I know the listeners are trying to get to be in your shoes, so give us just a little rundown of how you got there.

[00:04:26] DC: Well, if I did it, then really anybody can do it, because the way I got into real estate was – I was 18 and I just dropped out of community college to go become a musician. I play a bunch of different instruments. I called up my siblings and I said, “Hey! You guys had just recently started in real estate...” In Vegas actually. We always lived here in California but we're doing business in Vegas. I said, “I need a job for like six months.” This was 2008.

That job turned into, what is it, 12. Not 12 years. No way. Yeah, I guess coming up on 12 years of being in business but then just following, understanding, A, how to actually purchase properties, what to look at. My focus has changed over the years. I didn't start doing industrial. I always focused on commercial, but I did a lot of land entitlement, rezoning, value-add. I've done retail center value-add, apartment value-add. But as the cycle changes, the focus has changed.

Originally, I was doing smaller deals, raising money as I could. Now, at this point, I use a lot of my own money. Because we have a strong transaction history, we have a lot of investors that reinvest and refer their friends, and investors are calling me now as opposed to me having to call them. It's cool.

[00:05:57] WS: Yes, that is cool. That's an awesome transition you see to start happening at some point in your career. I'm going to go ahead and ask you this, what would you say is like the top thing that took you from just getting started to where you're at now, like something that

was so important that you would tell the listener?

[00:06:13] DC: I'd say, there are so many things. But if I had to boil it down into one kind of high-level thing, it's just having a growth mentality and just knowing that even today, as I sit here in front of you, holding my phone because my computer wouldn't sign-in to this interview, just understanding that, look, there's always going to be some issue. There's always going to be something that comes up. But as long as you're willing to learn from it and grow from it, you're going to end up fine, if you structure things fine. I guess just that growth mentality is really what it's all about.

[00:06:50] WS: Yes, that you can figure it out. We're going to make it happen. It may not be exactly the way you had planned, right?

[00:06:57] DC: It usually isn't exactly the way you had planned it.

[00:06:59] WS: As long as you have a plan and a plan to change, right? Now though, you are growing. You're opening. You have a separate office in Vegas. You're opening another office in Boston. Tell us what's caused this growth like this?

[00:07:12] DC: For a long time, we were doing deals in Vegas. Then we started doing deals here in California, because we live in California. Problem is, both markets, both Las Vegas and California markets, are just overpriced, so new acquisitions don't make sense. That being said, we started looking outside of the state. We found a deal in Massachusetts. It went extremely well. As we've done more and more and more deals just on a deal-by-deal basis. I'm fundamentally against funds.

On a deal-by-deal basis, we've done deals. Now, we're doing large enough deals that we have to open up a new office out in Boston. But it's also I've traveled a lot to Asia this last year or two years. We have a new partner out in Japan and who is managing Japan and China and all of our investors there. We formed good relationships, and it's paying off.

[00:08:08] WS: Nice. Yeah, relationships. You started though with really mindset, the growth mindset and mentality, and then in relationships and just that your network is so important,

right?

[00:08:18] DC: Yeah. Absolutely.

[00:08:20] WS: Maybe you can walk through either that specific deal a little more. Maybe it's one you're doing right now and maybe you can't talk about it as much. But either way, that deal or a recent one, and let's walk through some details.

[00:08:32] DC: Yeah. I'll talk about the deal that we just finished, so the SCC is cool with me.

[00:08:38] WS: That's right. I agree.

[00:08:40] DC: Last year, we bought a 55,000 square-foot industrial building in Fitchburg, Massachusetts. That's, again, like 45 minutes outside of Boston. In that area, there are a lot of – how do I best put this? Maybe class C assets, or even worse, just because of the condition of the property. It's a very depressed area. Not depressed in terms of the economy but depressed in the sense that all of this real estate used to be class A and B, all of it.

Then a lot of manufacturing and traditional industrial use was outsourced to Mexico, to China, to other places and because of favorable trade agreements. Well, these places were paper mills or coal mills and things of that sort. Well, I mean, people don't really use paper anymore, and coal isn't getting the best rep right now. So, a lot of these places shut down or moved or downsized.

That being said, what we saw recently was an opportunity. It originally started with us looking at logistics and marijuana tenants because of our existing relationships. But then other tenants and relationships kind of started flowing in, so we actually leased that building out to a marijuana cultivation manufacturing distribution tenant. We're not in the marijuana space, just a disclosure. It's just a tenant. There's no profit sharing. Even the TIs we offset onto the tenant and give them a rent abatement. We keep full separation. But it's a very nice interesting vertical in the industrial space.

Then what we've seen since we've been in that region is a lot of traditional tenants and logistics tenants and this new vertical of marijuana tenants, are actually reaching out to us for space,

because they're looking for good space. They want a stable landlord, and a lot of landlords over lever, or they're unstable in their own regard and they were just seeing that area start to boom for the first time in like 30 years.

[00:11:00] WS: How are you standing out as far as landlords? I thought it's an interesting way to think about that is like the tenant – and they're not just looking for the space, but they are looking for a landlord with specific criteria.

[00:11:14] DC: Again, check it out like this. I'm not sure how you structure deals but I'm going to use this as an example just in a general sense. Let's say me and you are structuring the same deal, and it's a 55,000 square-foot industrial building. You would do traditional financing with, let's say, 75% LTV. Or let's be even more conservative, 60% LTV. I buy something in all equity, and we bring a tenant in.

My ability to negotiate with that tenant, if it's a credit tenant and I want to negotiate with them, to give them more favorable terms, is much higher because I don't have a loan that's saying, "Hey! I have to start paying back this loan as soon as possible." We've quite literally given nine months on different assets, 12 months' rent abatement, so essentially a free-rent period. But we get a large deposit upfront and we hold the tenant to construction timeline doing their own tenant improvements. They're improving our building and we're not collecting rent, so it adds value. It's a mutually beneficial relationship. But you can only do it if you're not pressured by other forces outside of your control.

[00:12:33] WS: You're raising all the capital to purchase the building.

[00:12:36] DC: Yeah. Then we'll refi once it's stabilized.

[00:12:39] WS: Okay. Could we walk through that a little bit? You're raising all the capital. Just kind of go through all that process a little bit, so we can better understand that.

[00:12:48] DC: The process of raising capital?

[00:12:50] WS: No, just the process of how you're structuring this property. You're raising all the

capital to purchase the property, and then you're going through the remodel phase, and then it seemed you have a good paying tenant then. Then you're doing a refi. But maybe you could add some details in there.

[00:13:05] DC: Yeah. When we go to purchase any property, it will be a traditional structure, an LLC will take ownership. The one caveat to that is if it's in an opportunity zone, because in an opportunity zone, we'll do a two-tier structure. But I'm happy to talk about that as well if you want. It's a whole another can of worms. But in a traditional deal, LLC will take ownership. We'll open up the LLC, go out, raise the capital while also simultaneously doing due diligence, and simultaneously setting up the operation.

Generally, we'll pre-lease. So, we'll try to get tenants and leases assigned before we actually purchase the property. If we have between 50 and 70% of leases signed, again depending on the size of the property, usually it'll be 100%. Then we'll purchase the property and we'll be on our merry way. Depending on the deal, depending on how much TIs the tenant is going to be putting in, or those properties specifically, we'll give them some form of rent abatement, where we'll collect a deposit. Usually, the deposit will be something close to 10 percent – if it's a 100% leased site – it'll be 10% of what we purchased the site for as just a security deposit. Then the lease will be, depending on the area, but in that area around Boston, it will shoot for between 11 and 15 dollars a square foot, triple net.

Then after the rent abatement, we just collect checks. We always have some presence of making sure that the tenant – we're checking their financials annually, etc., which is all pretty standard. But we usually just kind of let them do their own thing. As long as they're operating legally with the COO, then we're cool.

[00:14:53] WS: Tell me a little more in depth about what happens with investors through that process, so kind of what their agreement is upfront, maybe their potential return on a property like this from the beginning. But then you got to do this refi. What happens with investors then as well?

[00:15:08] DC: The way that we structure our deals and it's subject to change, we actually recently changed it, my partners came to me and said, "Hey! We're not taking enough of a

carried interest.” So subject to change. But usually what we’ll do is we’ll put in usually between five and 10% of the equity ourselves. We’ll raise the rest in an LLC structure. We give our investors preference on principal repayment. Then we’re in second position for principal repayment.

We don't do preferred equity. Again, subject to change. But as of right now and historically, we have not done preferred equity. We’ll take 5% on the net cash flow as a management fee. 95% goes to equity ownership, which includes us. Then on the back end, what we've been doing is a 75-25. We’ll take the 25% management fee on net profits, and then 75% would go to equity ownership.

In a refi scenario, depending on how much leverage we’re taking on, we’re essentially – the goal of any refi, in my opinion, is to still not leverage up too much and to try to just pull out as much equity of the principal as possible. We’ll pull out that equity, distribute it out to our investors, and then just cash flow the property at a higher cash-on-cash.

[00:16:32] WS: Okay. How are you finding your investors?

[00:16:35] DC: At this point, it is almost exclusively referrals of existing investors that are sending people over to us. In fact, the way I got on this show is one of my investors said, “Oh, hey! You should go talk to this guy. He’s a really cool guy.” And he’s one of my investors in New York. He’s been with me for like four, five years.

[00:16:55] WS: He may be one of mine too.

[00:16:57] DC: Yeah, maybe.

[00:16:58] WS: That’s interesting.

[00:16:59] DC: I’m going to be in New York later. We should get there together. But that being said, it didn’t start that way. It started with me being not even 20 and running around various meet ups in the Orange County, in Vegas, and wherever, San Diego, the whole area – anywhere that I could drive to in a shirt that wouldn't really fit too well and pants that – also,

slacks that barely fit and just talking about deals that we were working on. So, it's really been a long road.

Now, we're talking to family offices. I don't like taking institutional capital, so we're not doing that at least yet, though people are trying to convince us to take institutional capitals up. It's really just, once you succeed in a couple of deals and you get that track record, investors are really hitting you up.

[00:17:49] WS: Yes. Dmitriy, what's been the hardest part of this syndication business for you?

[00:17:56] DC: There have been a lot of hard parts. I was just talking to my wife today. There are contractors that don't do what they say they're going to do. There are lawyers and architects and engineers and all kinds of other folks that will overpromise and underperform. We've had problems with tenants where we had to kick tenants out.

Although that process is less pulling on the heartstrings than a residential property would, you never want to get into a fight with your tenants. You never want to get into a fight with anybody when you're trying to do business. I'd say managing all of the relationships, like the investors and the contractors, and making sure everybody is on the same page while simultaneously growing is probably the hardest part. But it's fun too.

[00:18:45] WS: Nice. How have you overcome that? What's been a key in getting past that?

[00:18:50] DC: Having a good disposition, I guess. Waking up every day and going, "You know what? There's going to be good and there's going to be bad. But at the end of the day, it's mostly going to be good, and any bad we can turn into decent enough."

[00:19:06] WS: Love it. What's a way that you've recently improved your business that we could apply to ours?

[00:19:11] DC: Okay. I would say this. Delegating is extremely important for growth. I come from a family of workaholics. From childhood, my parents – I was a bad student and all of that stuff. But my parents would always say, "You've got to always strive to be the best, the best, the best,

the best, right?" I always did. I always looked at things like if I'm trying to do something, I can do it better than anybody else can because I know exactly what I'm trying to do, right?

That being said, time is limited, and in order to grow past any reasonable point, you need to be able to trust other people to get the job done. A friend of mine told me maybe six years ago, five, six years ago, if you can delegate something and it'll be done 70% as well as you can do it, then you should absolutely delegate that. It's definitely serving true this last year. Well, two years. We've had just massive growth as a company, and I've had to get new accountants, and we have, I don't know, seven, eight, lawyers of varying specialties. I wouldn't have been able to do that without a good operations team, a good finance team. It's just delegating. Learn to delegate. Learn to let go of having to control every little aspect of everything.

[00:20:40] WS: I could not agree with you more, without a doubt. Yeah. Who was your first hire, like what position?

[00:20:47] DC: My first hire was actually – his position has changed so much. He's still with me. He's my Chief Business Relations Officer or Director of Business Relations. I forget what the exact title is, but he's just my right-hand man. Patrick O'Donnell, he's been with me since literally day one with my partner, Hunter and I. We've brought on a bunch of different partners. He lives here in California and then he moved to Vegas, because we needed to – there were some properties that we needed to take care of. He was the first one to say, "I'm right there. I'm going. I got it." He comes back like two weeks out of the month or a little bit less than that.

It's just getting good, smart, loyal people, like Patrick. That's what it's all about. That's how you grow.

[00:21:38] WS: Yes. How do you stand out in your relationship with your investors?

[00:21:42] DC: With my investors? I tell my investors how it is. I was talking to a friend of mine. I'll give you an anecdote. I am part of different groups like political groups and charity and whatever, other types of groups that I'm part outside of just business. A friend of mine who is very active in politics is looking at my deal and he was saying, "Hey! You know, you're really just laying everything out there. It's structured in a way that everybody understands but it's also just

– it's more transparent than a traditional deal would be." In the sense that when I have a conversation with an investor, and I have lots of those conversations as I'm sure you do to, I will tell them, "Here's what our plan is. Here's what we're doing. Here's how we're going to do it."

That being said, I think you've probably been living the same life that I've been living in the sense that things don't always go as planned. So how do we fix that, right? If things go south, or not even necessarily if things go south, if things change, well, how can we maximize on that change? An example: this property that we're buying right now, it comes with water rights because it comes with a dam. We've never owned a dam. We're not experts on water rights. We're real estate developers. So, we realized that we can maximize our return even more by taking advantage of that.

But then in the negative sense, if a project goes south, well then how can we fix that project, take advantage of our all equity structure, and turn it around, and get a return for investors? But I'll tell people that right up front and I'll say, "Here's the plan and here's how we're going to do it. Worst-case scenario is this. Best-case scenario is this. If you don't want to come in, you don't have to. If you do, fantastic." I've learned it's better to turn an investor down than to try to oversell an investor, if that makes sense.

[00:23:57] WS: Yes. You need to be in the deal or want to be in. That's awesome. So how are you all prepared or how are you preparing for this potential downturn that everyone's talking about?

[00:24:09] DC: The all equity structure is a good thing, because there's no one that's going to call any loans on us. In terms of the places that we're buying, they're not in a full recession or depression, just because they've been in that for such a long time and they're on the recovery point. But I don't see the value of the properties that we are buying dropping much further than – I mean, they're not at rock-bottom, but they're definitely not at bubble prices like what we see in California and Nevada, which is the other markets that I am very familiar with.

In terms of just a general downturn, I don't think that we're going to see a really large downturn like we saw in 2008. Not because we don't deserve it, but because the rates are still very low, access to capital still very high, and what I think we'll probably see, at least here in California

and Nevada are in primary markets, even in Boston, in the primary area. We'll probably see a correction, and it may be a significant correction, especially in things like multifamily and even to a certain degree like maybe office and multifamily.

I see industrial still going up just because it's being driven not by height. It's being driven by necessity.

[00:25:35] WS: I guess depending on who your tenant is.

[00:25:37] DC: It depends on who your tenant is but it's – I guess there's a difference in my mind between choice and necessity, right? For example, someone can choose to live in a home or someone can choose to live in an apartment, right? There's an argument in multifamily, and I love multifamily by the way. There's an argument in multifamily that, "Hey! All these millennials are moving into the apartments because they need to, because they have a bunch of debt. Or they choose to because they're traveling, whatever it is."

In industrial, there's less of a choice. In industrial, it's, "I need a building that fits these parameters and I'm either going to build one or I'm going to lease one." But if there's a lot of inventory and it costs whatever, 130, 140 dollars a foot to build, or I can lease it for 12 bucks a foot per year, well, it doesn't make sense to do such a massive outlay of capital if I can get a year of rent abatements and then structure it with \$12 a foot for – your return on investment as a tenant makes more sense that way than in an alternative scenario.

Industrial has just been going up and up and up. There'll probably be correction again in like California, but I don't see it happening in the Rust Belt states, if I had to say Rust Belt.

[00:27:04] WS: Nice. Dmitriy, great show. Unfortunately, we are about out of time. But we don't have many guests that are into industrial properties as much, and so it's a pleasure to get to understand that side of the business a little bit and your growth and what's happened over these last few years for you in your all's business and growing other offices across the country.

Congratulations to you on making it happen and having that mindset from the beginning, that growth mentality. But also, what I meant to ask you, tell us how you like to give back.

[00:27:30] DC: I donate to the Jewish Federation & Family Services. I also donate to various politicians, only not the ones that are liars, just the good ones that have good fiscally conservative policies. I like to give back to my local community wherever I am. Any development that I do has to benefit the community as well. So, it's a win, win, win. It has to be investors, our company, and the community.

[00:27:58] WS: Tell the listeners how they can get in touch with you and learn more about you.

[00:28:02] DC: You can go to vosht.com. That's V as in Victor, O-S-H-T.com. You can reach out to any of the guys that are on there. It's usually their first name and then @vosht.com. There should be a contact there as well.

[END OF INTERVIEW]

[00:28:17] 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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