EPISODE 492

[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 Dylan Marma. Thanks for being on the show, Dylan.

[0:00:32.9] DM: Thanks for having me back in the show, Whitney.

[0:00:35.1] WS: No, I'm honored to have you on the show. You're a perfect guest and your experience and your track record has been amazing and what you've accomplished in a short amount of time. And so, I know the guest and I are both ready to learn a lot from you and the information today. But if you're a listener and you haven't heard of Dylan before. I would encourage you to look him up and Rand Partners.rs. Also, I would say go back and listen to show number WS255, it aired on July the third. He was also on the show then.

But a little about him, he began his real estate investing career in 2015 and by early 2018, he joined the team of Rand Partners with Jake a Gino. If you don't know who they are, you definitely need to look them up as well. Just an amazing group of guys and team. I've gotten to know them over the last couple of years and highly encourage to look them up and their events as well. I've been to all of them, I think. He works to expand into additional markets throughout the South East as well, as to build out the systems to open up the doors to outside investors, to partner through syndication. Has since been a sponsor on over 700 units and spends a lot of his time analyzing, underwriting new opportunities out of his home office in Knoxville, Tennessee.

Dylan, thank you again for your time and you know, you and I were talking before the show and one super power that you've developed is the due diligence process. And I know you've done speaking on that and different things and I'm looking forward to us discussing that today. And bringing out some of your expertise through that process for the listener and myself. But maybe you give us just a brief update so let's dive in.

[0:02:00.8] DM: Yeah, I would love to, I mean, isn't always the most sexy topic but I have a few stories that I think are worth sharing and hopefully everyone's able to pull a few nuggets out of it. Due diligence in itself is the process that takes place after you put the property under contract.

Standard and multi-family. What's been standard historically is usually, you have a 60-day close period, right? You're going and putting in the contract, the day the PSA is signed or often times, the day you collect all your due diligence documents, that's when the clocks starts ticking and you usually have about 30 day. We're seeing due diligence periods come into play so have a recent story that love to share with the audience.

[0:02:38.8] WS: Yeah, let's hear it. That's awesome. We'd love to hear it.

[0:02:42.5] DM: Due diligence as I mentioned often times is 30 days but when you're in competitive market like we're in today, you are seeing shorter due diligence time periods. Often times, pricing can't get any better, a lot of times it gets very competitive, you might scratch out to a point where you're even on pricing with some of the other guys that are placing a bid and the next way for you to compete when you know you can't go any higher in pricing, is by terms.

By terms, often times, you're seeing shorter due diligence periods or sometimes money going hard on day one which means that either a portion or the entirety of your earnest money is now not non-refundable no matter what takes place during the due diligence process.

We don't quite feel comfortable with that just yet. There are ways to do it that are really effective and have some friends doing. This deal, we recently had, we put it under a short due diligence, gave it a week due diligence.

Honestly, a week due diligence is plenty for us. We can go in no matter how big the property is within a day or two, three days of its, say, over 250 units to be able to go on site, walk every unit, get a good feel for what's going on the property and understand where the areas of difficulty or any challenges could arise are.

Back to the story, in this instance, we had a property where it was relatively new build, I'm not going to go into all the specifics on it, there's a relatively newer built property, really did not expect it was built in the last five years, didn't expect anything take place in terms of problems.

We said, "What could go wrong. This thing's brand new, right? Why do we even have to do due diligence," right? Obviously, we still felt comfortable. We said, "Let's get a look, let's not go in hard day one or anything like that. Let's make sure that everything checks out." We went on site, brought our guys out there, the most important thing is to have the right place, I'm not going to say I'm the plumbing and HVAC or I didn't go to school for them, the guys on our team are certified. They've spent time going through getting the education, they spend decades working on properties, dealing with the challenges of the important things to look for as far as the bones building.

We went out and we had the lead inspection guy and some of our lead maintenance guys on site. Typical for due diligence is to walk every single unit, even if there's locks and you can't get in, always make sure you have a chance to lay eyes on the unit. There's no issues getting in. Everything looked good at first glance and what we had realized – There's some, there's a couple of minor things that we saw but there always is. There's things that you can live with, there's things that are non-negotiables. For the most part throughout the entirety of the tour, we felt good about what we saw. And then towards the end, we spotted a type of plumbing material that was faulty at that point.

Here's a little challenge with it is it appeared faulty to us and to our guys that eat, sleep and breathe these stuff, right? It was not a proven faulty brand, it was a brand called NIBCO. NIBCO had been in two different lawsuits over the last 10, 15. They've rebranded in the early 2000s into the under the name of NIBCO. and then there was a class action settlement in –

Once the settlement got taken care off, the company stayed in business, you know, they kept on going and producing, right? It wasn't newer built stuff had anything out in terms of a settlement or a lawsuit. The brand had a reputation for being faulty. Our guys saw the PEX and it's like if you and I were to eat chicken, right? We know what chicken tastes like. If it's not chicken, we're going to say, "This isn't chicken," right. We know it.

We've eaten it hundreds of times, it's the same thing with these guys the way that they feel about the material, they're saying, "there's something wrong with this building, right? There's something wrong with this PEX material. We got to get out and this is dangerous. I like to think of it like it was in the early stages of having cancer in a sense, right? As a building. Because, if you catch it on the front end, it's going to be costly but if you were to replace all the PEX and the plumbing, you can get out alive, right?

But if you were to let that sit for years, what's going to happen is it's no longer going to be just a plumbing issue. It's going to then start to roll over and it's going to then be an issue with the sheet rock and the foundation and it's going to run through the cabinets and you're going to have to replace all kinds of things, anything that is remotely around the PEX and that gets very costly, right?

It's the whole idea that an ounce of prevention is worth a pound of repair. But it was a very heavy ounce of prevention on the front end and we had no evidence anywhere else to prove that this was a faulty PEX or plumbing material. That led to a point where we had to back out because we just couldn't make sense of it, at that price.

It would have been unreasonable for us to ask for any kind of a major seller credit or for any kind of renegotiation because someone else might go in there and they may say, "Well, we don't' find anything wrong with this PEX material." But we saw the leaks, we saw the challenges there so that was a learning lesson, we feel confident in our decision and walking away from that, it's never easy to walk away.

But in this case, it actually was – we were on the fence at all. Once we got to a certain – once we've talked to our guys, we knew it was a no brainer that we had to go so we felt it about making the right decision.

[0:08:09.2] WS: Wow, that's hard. You finally won this deal, right? You know, you're in the middle of due diligence process and you have to decide to turn and walk away from it or knowing that's what's best. What was the key in finding these problem though?

[0:08:22.1] DM: It again comes down to having the right team. I wouldn't have been able to spot this on my own, right? But one of our guys, Brandon, he's like our lead maintenance guy on our property management team. He comes with us to all the tours. He spotted out, he saw that it's this white PEX material, it's a brand of NIBCO. He said, "this stuff's no good." And then we went and we started to further investigate and look beneath the sinks and looked throughout the place, we saw that some of it had already been replaced, right? There was numerous signals to us that were showing that there was either leaks or there was areas that had been replaced.

Really, like I said, it's almost an intuition thing TOO with someone that's worked around these stuff enough when you have them there, they're like a – telling you that this is a flag going off in his head, right? We really trust in what he saw there.

[0:09:07.3] WS: I hope you bought Brandon a steak that night.

[0:09:10.1] DM: Yeah.

[0:09:11.2] WS: You know, talking about doing due diligence in a week, I mean, of course, you know, I think about that and I'm like, "Okay. We want to do it as fast as we can as well." But you know, just thinking about that deadline is like, "Well, that's burdensome," right? I would think, you mentioned like okay, due diligence usually starts as soon as you get a property under contract but I would imagine if thinking that you have a week's time, you're probably trying to do as much as you can before you even have it under contract as well, right?

What would you say you all are able to complete before you even got the contract that's worth noting?

[0:09:39.9] DM: Yeah. That's a good point and a lot you can do, right? That's why I know, often times for people that go hard day one or early on, there's a lot of things that you're able to do ahead of time. Sometimes you can even work out agreements with the seller that they'll [inaudible 0:09:53] the property or [inaudible 0:09:55] the units prior to find the PSA done. Typically, between the LOI and the PSA, there's a little bit of a week timespan.

That's what you typically find so it's a lot of back and forth, the attorneys are racking up their bills on both ends and buying you time, too which is helpful. So, during that time, you want to make sure you're taking advantage of it. Largely, for us, we do a lot of varying market research if we haven't already physically secret shopped in the local properties, we'll be sure to go out there and drop some of the properties.

We'll be coordinating with our due diligence team that making sure the set date on the calendar so it's as soon as the client's signed, we are out there 24, 48 hours right after that. We are in talks with our attorneys, syndication attorney. We're engaging them, we're engaging our lender, we're going through if we're able to go through the rent roll or get access any document, we would do an early lease on it but often times, that's not always the case. But yeah, those are some of the big things, it's really just getting all the team involved and getting all the pieces in place, ready to go.

[0:10:54.4] WS: Are there any other documents other than maybe rent rolls, expenses, things like the T12's that you were, I mean, just adamant about collecting during that due diligence process, or you know, when you gather the documents?

[0:11:05.5] DM: Yes. The best piece of advice I have for this is when you're doing a lease audit, often times, you're just thinking about this. But what doesn't get talked about enough is the application on it. I'm a huge believer that the applications can tell you more than the leases do, especially if you're buying form someone that's more professional, the lease audit is completely out of whack if you're buying from a true mom and pop owner or something like that. It's extremely important. Never a step to miss over.

But beyond that is learning about the application – this gets looked at in every other aspect of real estate but for some reason in multi-family, people can overlook [inaudible 0:11:45] looking at a retail location value on that property is largely weighted thanks to the credit quality of have in place on a retail, right?

You have a Whole Foods in place, it's going to do better than if you have a local grocery store. You have to really factor that in. It's no different with multi-families, you want to ensure that you have high residence. It's actually more dangerous I think because in multi-family, a lot of times, the owners can, they stuff it with whoever they can get in the door often times, right? Within six or 12 months before you close in the deal.

You're going to find people – They're just focused on getting the occupancy up so that you can get the loan and then close the deal. What the application audit on it is going to tell you is whatever the incomes of the residence there, what are the credit scores of the residents there? How long have they been there, right? What is their rental history? Are they married? Who else is on the property right?

You're going to learn a lot about who is living there and you're going to learn things like wow, a lot of them work at the med center down the road or some of them are lower income, you know, a lot of them are working in part-time positions or they're college kids, right?

Sometimes what's disclosed to you on the front, it's not always what's going to be there and I don't think that's form the owner necessarily lying. Sometimes owners do things for 20 years, they totally lose sight. When they – maybe it was all people that work at the med center and all of a sudden, they realize it is actually 40% college students in there or whatever it might be, right?

There can be a big change in the demographics as times change and areas evolve. So, I think going through the application is extremely important. That is the one thing that I'd say is beyond your standard list of documents.

[0:13:25.9] WS: I think that is a great piece of advice and it is not something I hear talked about too often. You know there is obviously tons of documents in the leasing office we go through. But yeah, looking at those applications closely is not something I hear often. Anything else that you all are like, "Okay, we have to look at this."

[0:13:39.8] DM: So, we have a due diligence checklist, right? And that is extremely important for us because there is a lot of small pieces moving all at once. Especially if you're in capital, you are working with investors, you're answering questions, juggling relationships with the lender, you are juggling stuff with you attorneys. You have a million things you're juggling and it's hard to stay focused. So, to stay focused and make sure it will be, you need to have some kind of a checklist in place.

So, we are paying attention to everything from making sure we have our survey done, our title work done. If we face one, checking if you need a termite inspection, checking with code enforcement. We are going to scope plumbing lines. So, making sure we have – we always run a camera down on the plumbing lines because that is going to be one of the most costly things that you can overlook, especially if it is an older vintage building to pay attention to that.

I am going to look for your CO's or your certificate of occupancy checking with you if something is needed. We just want to check the flood maps, usually you want to do that prior to due diligence but always double check yourself there to have your insurance in. You are going to want to see capital improvements. So not only do you want your operating statement but what kind of money have they put into capital improvements that are going to materially impact the property.

You also want to catch that because if they have just been everything below the line as capital improvements, you want to know that truly in a big way how the property is being rented. It is becoming more and more common to this day and age. And you want to check for any pending litigation. You want to look at all of the operating statements. You want to check the bank statements and make sure that those match up with [inaudible 0:15:15].

Go through all the bills, all the vendors. You want to see every single one [inaudible 0:15:18] ground and see where you can save money. Often times they haven't negotiated these contracts so this is always where you find your value-add is have they really negotiated on the trash. Is there ways to cut that down? Is there ways to cut out cable contracts? Is there a contract in place that you are going to have to go in because that can make the difference in terms of expenses, right?

So, you want to pay attention to that. Insurance loss runs, any additional maintenance record, those are the big ones I would say.

[0:15:48.7] WS: No that is a great list right there, no doubt about it. Going back to something that we talked about earlier, doing this due diligence process in a week and going into a deal and knowing that from the beginning I think it is a testament to your team and your own ability, how structured you all are. You know everybody can know their lane, what has to be accomplished or else you are not going to even try doing it within a week, right?

It's definitely given you all of that competitive edge and I think it is interesting knowing like this deal being as new as it was, it would have been common on something that new to have went hard day one I think with a lot of teams.

But I think it was wise obviously here that you all didn't do that.

But is there anything behind that decision to not go hard day one? I mean you still won the deal as far as getting it under contract. But anything behind that decision that would help us to learn how to be that cautious as well even on a property that is this new?

[0:16:42.4] DM: So, I think that we could have made the decision to go hard day one on this deal if we were a little bit more diligent on the front end and we knew that, right? We knew we had to buy time to get on there and go through and visit. But if we had at this point, it really is just a matter of you talking seven days versus zero over [inaudible 0:17:02]. It is not a huge difference but if you are going to go hard day one, which is very common on new properties because of the whole –

Often times in multi-family there is a huge as is clause on the contract, which is you are going to assume every single problem that could possibly be in existence with this property and you are never going to ask us for a dollar again as soon as we close. That's normal, right? That's how it is. And obviously on older properties that are 30 to 40 years old that requires due diligence because there can be a lot more newer properties the typical thought process is what could be wrong when it's brand new?

Why don't you just put some money down hard? And there is probably a little bit less that could be wrong. I would say if you are going to even consider it, which you might have to if you really want to compete, you are going to be doing newer stuff. But make sure that you give yourself time to get physically out there on the property. If you can get in the units ahead of time and actually do a – it's kind of a fake due diligence but it would be an early due diligence before the contract's actually signed.

If they would let you do that that would be one off that would be the best case scenario because you are still getting what you want and you are just doing it in a way where you are doing it before the PSA's technically signed. And if that is not the case, I would have very least make sure you bring someone that's smarter than you or I might be when it comes to the bones of the building out there with you during your initial tour if you will and go through as many vacants as you can possibly get into.

Maybe check one or two that is someone's living in so that you make sure the vacants aren't all pretty and there is something hiding in the ones that people are living in. I'd got into at least a good sample size of unit and make sure that they're looking at everything that they are important that would be a major threat to you. That is actually what we are in the process of right now as after taking this and reflecting and learning, we are going back and we're thinking to our self, "What are the negotiables," right?

Like I said there's you can live with and there's some things you can't, right? So, let's identify what are the things that we can't live with and make a clear list of those? So that even before we even go into due diligence or go into contract we have that clearly spelled out. We have already checked all the boxes to make sure that we could move forward after taking [inaudible 0:19:08].

[0:19:09.3] WS: Yes, you know one big thing that just seems like that's been crucial here is that you have expert team members in specific fields and I want to be very smart in all of those fields however I want to understand that I am never going to be the smartest person. I don't want to be the smartest person on my team about plumbing you know? So, you know that's awesome that that is just the team that you all built but –

[0:19:29.8] DM: It takes time to get there too because for me I am such a big learner. That is where I get my energy. I love – like I want to learn everything about everything. But there is just so many things to learn in this space that you to come to reality at some point and say, "Okay, well this isn't my forte. Let me specialize on the acquisition side. Or let me specialize on the asset management or operation." Let the experts be the experts in this area because it would take so much time that it wouldn't the best use of my time to go and study this stuff to the core.

[0:20:01.6] WS: Great advice. Well, Dylan, we are almost of out of time but I have a few more questions for you before we end the show. But how are you or your team prepared for this potential downturn that everybody's talking about?

[0:20:11.8] DM: We are planning to hold long-term. We really are focused right now. We started off building most of the portfolios long-term holds. Most syndications that we have done, we have the intention to sell. We will because we want to promise, you know fulfill our promises to the investors. But right now, with where we sit, we are looking at how do we avoid speculating on where the market is going to be and your exit risk or your interest risk?

How do we mitigate that as much as possible? And also, how do we take advantage of multi-family and the state it's in, right? The yield is not 10%. There are other places you can get 10% yields that this point and multi-family is not always trumping with the yield maybe after a heavy value-add, it can get there. But we are really trumping it. It is a long-term confidence I say it often but, "How many businesses would you really bet on being here 50 years from now?"

Probably not that many. But I bet there is a lot of apartment complexes in nice locations that you'd feel confident that are still going to be there and someone's still going to be living in it in 50 years. So, I think for us we really want to take advantage of that and we don't really want to be looking back later in life regretting that we sold.

[0:21:15.8] WS: I like that. I like thinking about it that way too. That is interesting. So, what is a way that you have recently improved your business that we could apply to ours?

[0:21:23.8] DM: Recently we have on Asana, we have been doing a lot of project management work, which has been awesome for us. I think it just really getting the system to where just like with the due diligence checklist, get as much as the thought and the memorization out of the picture and make sure it is all down in every single process you do with that on the checklists even for as simple as marketing, right? We weren't very consistent with that for a long time in terms of posting in social media and things like that.

Now with at brand CRE on most social media platforms we have all kinds of infographics and we have all of those going out. We take two days out a month, we batch everything out so we will actually sit there and spend one day designing all of the infographics, designing all of the captions and the second day just recording video after video after video. So, we have the chance to just have it all on autopilots from there. We'll set the VA's, we will have it all on the channel. We'll make sure that we'll have a post daily by just spending two days on marketing.

[0:22:19.7] WS: Very nice, what is a way that you all stand out in your relationship with your investors amongst so many other operators?

[0:22:25.8] DM: I would say it's the vertical integration and it is the fact that we started off with a lot of our portfolio bought in house. We didn't start off in syndication. We started off buying with the intention to hold long-term and managing all of it our self from day one. And we are still managing it all our self and we are still going after deals with that same sort of mentality. So, I think for us it is definitely just being vertical to the core.

[0:22:48.6] WS: And what's the number one thing Dylan that's contributed to your success?

[0:22:52.3] DM: Learning, reading, I love learning and reading. I actually enjoy when there is the barrier to entry that is getting a certain topic. I think in multi-families, a decent barrier to entry with getting all of the fundamentals down and getting a full understanding of the big picture and how everything works together. So that would be for me I would say that's my best strength.

[0:23:13.8] WS: What's the top way you all are finding investors right now?

[0:23:17.0] DM: Podcasts, really. We have the podcast, [inaudible 0:23:20] profits. We do four shows a week and we have a lot of people reach out to us there. Secondary, it's referrals and then third is social media. But primarily podcast then backed by referrals and social media.

[0:23:30.8] WS: And how do you like to give back?

[0:23:32.1] DM: Right now, I am really like to helping other people in general. I have a lot of people that reach out with questions on multi-family that I have built good friendships and relationships with or whatever it might be. I have friends that are trying to get into entrepreneurship or business retail all the time. I think for me my sole source of contribution at this point is really just through teaching and educating others and just being available for questions as they are needed.

[0:23:54.8] WS: Nice, well, Dylan great show. We are out of time but I love hearing stories about the due diligence process where you obviously learned a lot and we can learn from that as well. And thankful that you had Brandon on your team and you all found out and just congratulations. You all too just building the amazing team that you all have and it's been great to see your own success. Tell the listeners how they can get in touch with you and learn more about you.

[0:24:15.5] DM: Yeah, of course. Thanks again for having me on the show. You can always reach me at dylan@randcre.com. Or you can find me on I am in most social media platforms, Dylan Marma.

[0:24:26.2] WS: Awesome Dylan, thank you very much.

[0:24:27.8] DM: All right, thanks, Whitney.

[END OF INTERVIEW]

[0:24:29.1] 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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[OUTRO]

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