EPISODE 536

[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 Matt Shamus. Thanks for being on the show, Matt.

[0:00:32.1] MS: Whitney, thanks so much for having me.

[0:00:33.5] WS: A little about Mat, he's a co-founder of Driven Capital Partners, a diversified real estate private equity firm with a portfolio totaling eight projects and approximately 85 million dollars in value. He started Driven Capital partners to invest his own capital in high quality commercial real estate in US growth markets. He has enjoyed a successful entrepreneur career spanning the finance, real estate, and technology industries, including six years at Facebook.

Matt, thank you again for your time, share to the listeners a little more about who you are, why you're into the commercial real estate space and let's dive in to what you do exactly.

[0:01:10.6] MS: Yeah, thank you so much for having me, Whitney. I got kind of started in real estate at a young age. I got my real estate license when I was 20 and I ended up selling my mom's home, the home that I really grew up in.

She made a nice profit and I had this kind of lightbulb moment and that was about the time that I read *Rich Dad Poor Dad,* and I kind of had this entrepreneurial mindset where I felt like, "I'm going to make something happen out in the world," and real estate just seem like a really interesting avenue.

Actually, thought I was going to go into commercial real estate in some capacity out of college but I ended up going into investment banking and learned quite a bit there. But real estate's kind of always been in my life in some capacity even though I've had a career that has spanned other kind of call them day jobs.

I started investing earnestly in real estate in 2011. I started buying single-family homes, duplexes, triplexes. And you know, essentially buying the worst house in a pretty reasonable neighborhood. And then, adding value by renovating pretty significantly, getting a long-term tenant in the property and that was kind of my model.

And I thought, "You know, by the time I'm 40 or 50 years old, I'm going to have a really significant – my financial life and my family's financial future is going to be dramatically different." And I thought, you know, if I can do one or two of these a year, this is going to be in addition to my day job and my other responsibilities, this is going to be really meaningful for me.

And at some point, I started making more money in real estate and having a lot more fun in real estate than I was in my day job and I was kind of yearning for a little bit more of an entrepreneurial opportunity. That's kind of what led to Driven Capital Partners. But it was kind of this foundation of entrepreneurial mindset, some entrepreneurial endeavors before and then the success of real estate but on a smaller scale for sure.

[0:03:17.6] WS: Okay. So, right into like what is Driven Capital Partners, how do you all function, give us a little bit about just your all's investment strategy?

[0:03:26.5] MS: Yeah, Driven Capital Partners is really myself and my partner Dan Kennedy. We're both in California and we started Driven Capital Partners to invest our own money. We wanted to build a portfolio of high-quality real estate that was diversified across asset classes and across different markets.

We started this as an opportunity to really get lots and lots of deals and opportunities in front of us and to go put our own money to work. As you know Whitney, you know, most of these large deals, you generally need other people's money to buy them and improve them and then operate them.

We do take pride that we invest our own cash in every single deal that we do. But typically, not for every deal, sometimes the deal is small enough for us to take down on our own. But usually, we will invite other people in our investor network to participate in deals with us. That's really what we do in a nutshell.

[0:04:27.6] WS: Tell me a little bit about just how you all are diversified. I know you all take pride in being diversified across different asset classes and just elaborate on that a little bit. I know working with investors, I mean, that's a different relationship, you know, when the see different types of deals all the time as supposed to just the same business model, elaborate on that please?

[0:04:46.7] MS: Yeah, that's exactly right. We do not show investors the same deal or approximately the same deal over and over again. Again, we want to build a portfolio that has staying power. And for us, what that means is, we can't do the exact same deal over and over. And we can't stay in only one or two markets, you know, we want our investors to be able to build their own portfolio.

That doesn't mean they need to invest in every deal that we're doing. But it gives them an opportunity to see different kinds of deals, different deal structures. It gives them exposure to different asset classes. So, for instance, we have multifamily deals, we have just closed in December on a couple of medical office properties which we're really excited about. Purchasing a flex kind of industrial office property which we're really excited about.

We look for opportunity and we are opportunistic as an entity. And we go say, "What markets do we like? What about those markets are interesting?" And then from there, "What asset class presents itself as an opportunity?" And then, "How can we go take advantage of that opportunity?" That's essentially kind of the flow that we go through when we look at any new investment.

You might see for instance, we have a project in Santa Barbara, which is a really unique project, it's an office, a multifamily conversion, that's not something that you see every day. And then we have a pretty regular kind of straightforward multifamily project in Huntsville, Alabama which those two things kind of in some ways, couldn't be further away from each other, those two investment opportunities. But it gives our investors a chance to expose themselves to different kinds of risks and to create a portfolio for themselves over time.

[0:06:31.8] WS: Nice, I want to dive into that a little more but I just want the listeners to know, you and I briefly discussed just how you all are turning this coronavirus into an opportunity and whether it's for landlords and buyers and just how you all responded to that and we're going to get in to that. But I want to dive a little bit more into you know, just having that conversation with investors when they're seeing so many different types of asset classes and building just the level of trust that's so important when they know we're an expert in this thing that we do, you know?

We've done it this long, we've done this many deals but you know, if I started to do some other completely different asset class, I would expect some different types of questions from investors. "Now, wait a minute, you know, you've never done this before." Tell me a little bit about how that's worked with investors doing so many different asset classes?

[0:07:18.8] MS: You're absolutely right that the number one thing is trust. We have been blessed to this point that we haven't been constrained by capital. We've been constrained by having deals that we are excited about doing. But, you're right, it does make the conversations a little bit more challenging at times with investors because in many cases, it's a lot of education. Here's where we see the opportunity, here's how we have mitigated the risks, here's why we think this is the best opportunity in a particular market.

And at the end of the day, any investment comes down to the investor taking a leap of faith with you. There's no doubt, trust is the most important thing. We have a network of investors who we have prior relationships with, many of them have invested with us in previous endeavors and previous entities. And basically, what we try and do is articulate our plan and also share what we think the risks are and every deal is not for every investor. That's not the model that we have and we’re pretty clear about that. We do not at all try to encourage someone to take a risk that they are not comfortable with.

That means that we have lots of people that trust us implicitly and they do invest in the vast majority of our deals. And then on any given deal we have maybe on our most recent deal, we probably had about two thirds of our investors were repeat investors and about a third of them were new.

I think that’s the other thing is, having a diversified offering, allows you to – it appeals to a certain investor. It doesn’t appeal to everyone but it certainly does appeal to some and that’s who we are targeting and developing relationships with.

[0:09:06.3] WS: You mentioned that you’ve not been restrained by capital, which is a blessing by itself. There’s numerous people that would also say though, they have been restrained by the lack of deal flow or good deals or a deal anywhere. You haven’t been restrained by capital. But do you see that changing right now or do you think it’s going to change at all? Amongst the current market that you know, towards the end of March here?

[0:09:28.4] MS: I think this business is always going to be constrained by one of those two things, right? Either capital or access to deals that that capital wants to deploy into. Yeah, I can absolutely see that changing as we do larger deals, as we do more deals, yeah, absolutely.

We need to continue to expand our investor network. But up until now, it hasn’t been the constraint and really, we want to focus on doing deals that we are excited about. If either Dan or myself isn’t willing to jump on the table and pound our fist that this is the deal that we should be doing, we really just don’t do it. And part of that comes through I think in our discussion with investors about a particular deal. There is an X factor when someone can see and feel the passion that you have for a particular deal, even if it may be something that they haven’t considered investing in before.

[0:10:21.4] WS: You know, what about any response from investors right now saying, “We’re going to hold off for a few months anyway before we do any more investing,” or any conversations like that?

[0:10:32.8] MS: Yeah, there are certainly some investors that are spooked by what's happening in the markets and by away, I think that is prudent. I think you know, worry, worry may be a bit of a strong word but worry about what is going on and what will be happening in the future. But that's in some ways, a defense mechanism to help get you planning and thinking about what you're going to do about it.

I think some level of concern and worry is really healthy. Yeah, we have some investors that have been battered pretty heavily by this recent stock market decline. But by and large, our investors share our belief that this may actually present a window of opportunity. If we believe that the coronavirus affects are going to be relatively short lived and there are still lots and lots of uncertainty, I want to caveat that, but if we do believe that.

And then you couple the fact that we are looking at investing in markets and asset classes where the fundamentals before coronavirus were very strong and presuming there is a return that kind of normal every day economic activity, those fundamentals are still there. Coupled with a very low interest rate, historically low interest rate environment, it actually may present an interesting opportunity that we can take advantage of. That's what we are looking to do. But, in a very prudent way.

[0:11:59.2] WS: On that note, it's a great segue to – I want to know how you all are turning the coronavirus into an opportunity whether landlord or buyer, just dive into that as well.

[0:12:07.9] MS: Well, most important for us is our current portfolio. We have to make sure that we are tending to the existing tenants that we have. Give you an example on the medical office, we have two medical office properties and these are dentists, doctors, physical therapist, our tenants in these properties. Everyone is getting hit as a result of the coronavirus, the economic effects of basically staying home. Everyone's staying home.

What we're doing first and foremost is looking at how can we help our tenants? We are only going to be as strong as them and they need to be thriving in order for us to do well long-term. First and foremost, we're looking at other opportunities that we might be able to put in front of our tenants that help their financial wherewithal and their ability to with stand the next at least few months of economic distress?

But specifically, we have tenants who maybe – so for instance there is a one dental tenant who we are in current in negotiations with, who has about 18 months left on their lease and as a landlord, you would like them to have a lot longer term. As a tenant they're going through cash flow issues right now. So, is there an opportunity to potentially renegotiate their lease, adjust the structure so that they stay for a longer term and maybe in return, we are willing to abate their rent for some period of time to ease their cash flow concerns?

Now that is a simple example and it could be that simple. But basically, at the end of the day we are real estate investors and operators. We are problem solvers. This is a big, big problem. It is a hairy one and now we have a chance to go potentially come out on the other end of it stronger than we entered it.

And I think of it, it is not a perfect analogy but analogous in some ways to a relationship where maybe you have a bad customer service experience but somehow that person on the other end of the experience turns it around for you and at the end of the experience, you started with a negative experience and it turned into a stronger relationship between you and that company that maybe you were buying something from.

And I see this as the same opportunity here and we are just really trying to take advantage of that by talking with each of our tenants and seeing if there is an opportunity for us to help and seeing where those conversations go.

[0:14:40.8] WS: Love that. You are really turning it into a positive and potential stronger relationship and potential longer lease but also working with them as well, making it a better situation for them during this hard time. I love how you're just working that out and making it a win-win. I will never forget years ago I was sitting in a small group at church and this guy said – A great guy, he said, "If you want to see what is on the bucket you got to kick it over."

It is like us personally when your bucket gets kicked, a lot of times that is what and that is kind of what the coronavirus is doing to a lot of us or our businesses and we get to see what is inside our own buckets and I agree. It is a great time to really be working with tenants and we are trying to do the same thing during this time to figure out their needs and figure out how we can make it work for all of us.

Just moving further in that a little bit, what do you see your team is doing over the next say six months? I know it is like we still don't even know exactly at the moment how bad this is going to be or how quick it is going to be over with, one way or the other. But you know right now with what we know and again this is March 24th, this won't come out for a couple of weeks after or so, but I just want all the listeners to know that because we might know a lot more about it by the time but at the moment, how are you all planning moving forward for your business?

[0:15:52.0] MS: Well, so again first and foremost is making sure that we have our current house in order. So looking at every one of our properties and this was a big exercise last week for us, which was, "How can we take a step forward on every single property that we have and put ourselves in a better position given the uncertainties ahead?" And so that was the big exercise for us last week.

Looking forward into acquisition opportunities, we are being cautiously optimistic and I would say even more prudent and conservative than we have in the past. So last week, we killed a lot of deals that we had been kind of considering and were are on the back burner. We just took the opportunity to say there is a good chunk of deals that we are going to pass on right now and free up our mind space to go focus on the few that we think actually have great opportunity.

And again, I think this comes back to do we think that the fundamentals are strong? And do we think that even in some kind of sustained down turn this is a good investment opportunity? And do we think it is a good investment opportunity now?

So, I think it is kind of having your ears perked up and for us, it is not being – we are still looking. In fact, we have two deals in contract right now and so we are still looking. We are being even more prudent than we were. We're probably going to raise more cash than we anticipated on both of these deals which gives us a little bit more equity and reserves, just in case and it puts us in a more conservative position.

Now on the flip side, we are going to get better in debt terms than we anticipated. And also, on the flipside, there may be an opportunity to get a discount on a property today. There are certainly sellers that are and there will be sellers that are interested in selling their property and they are going to be more motivated today than they were maybe a month ago because of just the uncertainty in the future.

So I think we are going to continue to look but we are going to be even more prudent and we are going to probably be even more conservative with how we structure any given deal.

[0:18:00.3] WS: Do you all have any kind of way of calculating how much extra cash you are going to raise for that reserve account you are talking about? You said you anticipate raising more. Most people I find don't really have a great way of saying we are going to raise this much more but I just wonder how are you all calculating that moving forward or raising more even for the two deals you have under contract?

[0:18:18.1] MS: I think it is going to depend deal by deal. There is not an easy quick calculation. One commercial deal that we are in contract on right now is a 100% occupied and it has long-term tenants but we are going to raise enough cash that we can cover one year or more worth of debt service if both tenants just fell out of business overnight and we don't expect that to happen. These are strong tenants, long-term tenants, strong credit profiles. But just in case we want to have that extra cash.

And what that does, you know this Whitney but what that does is it is going to lower our return profile. Like when we go tell investors here are the returns that we expect because we have cash sitting in an account waiting for a rainy day it is going to lower our return profile. But I think all of us are going to be able to sleep a little bit better at night knowing that we have just an extra cushion.

[0:19:14.2] WS: You know I think after what is happening right now, I do not think that will be hard to sell investors on you know? You are going to take a little less return; however, we are going to have this set aside and reserve budget from day one and we just close on a property a week ago and we had a massive reserve budget. I know that people probably thought we were crazy for having such a large reserve budget and we're so thankful and you know obviously now that we did you know?

And I just think that is a very wise move having that from day one as opposed to having a much smaller portion upfront, which is what a lot of guys would do and then just say, "Okay we are going to take so much per unit per year," build that up. But you don't know what is going to happen in the first two days after we own the property or the first day almost you know when a lot of this started coming out. So, a few final questions Matt before we run out of time. Tell me, what's been the hardest part of this syndication process or business for you?

[0:20:03.2] MS: The hardest part has probably been maintaining focus on what we kind of believe to be the biggest opportunities. And this is the double-edged sword of the approach that we have, which is we look at lots of different opportunities and in different markets. And so, I think staying focused. For us it comes back to believing in the market and understanding the fundamentals of the market, staying true to just our core DNA, which is conservative and long-term minded.

I think focus has been something that I think for everyone, for any entrepreneur, right? That is building something, you can get shiny object syndrome. So that has been something that we continuously deal with. But we are excited about where we're going.

[0:20:47.6] WS: What's your best advice for somebody to become a successful syndicator. Maybe one or two sentences that maybe they haven't done a deal yet but that is where they are headed. They are pursuing to operate their own deals and be a syndicator just like yourself?

[0:21:00.3] MS: I think you have to – I would even back up and say that as a syndicator or entering a space where you are going to be putting together and sponsoring deals that is a very entrepreneurial thing to do. And as an entrepreneur, you have to have this mindset that is about "I am going to do this someway, somehow. And it is not a matter of if but it is a matter of when. And there is nothing that is going to stop me."

If you have a shred of doubt it is going to be easy to hold on and it is going to be easy for you to back away from what really your ultimate goal is. So, I would just say, you know you really need to have confidence and get your mindset right that you are going to do this no matter what and it is not a matter of if you are going to do it, it is a matter of when.

[0:21:51.9] WS: What's a way you have improved your business recently that we could apply to ours?

[0:21:55.8] MS: Well, actually I probably can take some tips from you Whitney. I know you are pretty big on automation and outsourcing and things like that. The team right now is just Dan and myself and as we grow, we want to maintain – We do not want to build a big business. We want to maintain that very small business. But we know that we need to rely on other people more.

And so, we are going to be looking to implement some probably some outsourced functions and some additional teammates to help us do some of the things that maybe are repetitive or that we can't that aren't the best or absolute best use of our time.

[0:22:29.5] WS: What is the number one thing that's contributed to your success?

[0:22:31.9] MS: I think it probably goes back to mindset. You can see it in our name, Driven Capital Partners. My partner Dan played professional soccer for 12 years. He is going to kill me for saying this. But he is not the absolute best athlete on the field. But he was so driven to succeed, he made a great career for himself.

And I would say the same thing personally. I am very focused on the task and goal ahead and I think that that's important in this industry. If you are starting out from a non-traditional background, from a non-real estate background, I would say that it is really about persistence and the positive kind of abundance mindset.

[0:23:10.8] WS: How are you finding investors right now?

[0:23:13.0] MS: We are – The vast majority of our investors come through referrals for us. We don't do any advertising, any marketing, we are largely taking on investors through referrals and word of mouth. And I think that will continue for us. That's what feels right personally for me and for Dan and we like to have a direct relationship with our investors. So that is what we'll probably continue to do.

[0:23:36.0] WS: And how do you like to give back?

[0:23:37.3] MS: Well, so I used to work at Facebook. Facebook has a great feature, which allows you to donate to particular charities or causes and it is really easy. In fact, I donated actually earlier today to the CDC. And so, I find it really easy, an easy way for me to donate the money to a particular cost and it is very topical I would say that's my method of choice at the moment.

[0:24:01.3] WS: Wow, Matt thank you very much for your time. It's been great to get to know you a little bit and just hear what you all are focused on, how the coronavirus has affected your business but how you all are seeing it as an opportunity and moving through that and even being very futuristic, optimistic, expecting opportunities to this even though it is a difficult time for everyone.

So, just grateful for that and just you talking about just the mindset shift for an entrepreneur and just how that has helped you to be successful and will help all of us to be successful in our businesses.

But tell the listeners how they can get in touch with you and learn more about you?

[0:24:34.1] MS: You can visit our website, drivencap.com, short for Driven Capital Partners. My email is matt@drivencap.com. And I would say those are the two best ways.

[0:24:44.6] WS: Awesome Matt, that's a wrap. Thank you very much.

[0:24:47.3] MS: Thank you Whitney.

[END OF INTERVIEW]

[0:24:49.0] 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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