EPISODE 542

[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 Pankaj Sharma. How are you doing Pankaj? I'm struggling with the name today. I'm sorry but it's –

[00:00:35] PS: That's okay. I'm good, man. It's good to chat with you.

[00:00:39] WS: Yeah, you as well. You as well. Just from reading your bio, I'm surprised that we haven't met before. A little about him: He's a second-generation multifamily owner-operator in over 20 years of industry experience. His last acquisition was 828 units in July of 2019 with no investors. He self-manages his personal portfolio of 2,000 units.

Well, thank you again for your time being on the show. I'm really looking forward to getting into this. Not everybody self-manages 2,000 units, so give us a little more about your background, and let's get into how you built up the 2,000-unit portfolio.

[00:01:16] PS: Being that I'm second-generation, my father bought his first property, a 52-unit property no money down back 40 years ago, and I was about 10 years old then. So, I kind of grew up in the business, watching him learn the business. He didn't know anything about it. The broker basically took him by the hand and guided him and showed him how to do a no-money-down deal. It's owner-financed. It's assumable loan. That one property got him in the door, and he was an engineer that came from India with pretty much nothing. And always had a strong work ethic and always had a very – Just a business mind.

When he got into apartments, like that was it. He just kind of took off, and it was not what I wanted to do. Me growing up in the business, I was always, “Thinking the grass is greener somewhere else.” So, in my mind, I was – I never really thought I'd get into it until I got older and more practical. His portfolio started growing and he needed help and then I got into the business. But I was doing things even when I was little: painting apartments, cutting grass, all that kind of that stuff.

[00:02:15] WS: But you didn’t want any part of it then though, right?

[00:02:18] PS: Because, for me, I just thought it just didn’t look attractive from my side of things the way I was seeing it, about what I was seeing. Dealing with all the headaches and dealing with people, and I just thought I could do better off somewhere else at that time, so little did I know that this was going to be the best investment vehicle and business vehicle for me and for a lot of people. It took me – I’m a slow learner.

[00:02:42] WS: What really changed that for you? I mean, obviously, I’ve got kids too. I’d love for them to be in the business someday but I can imagine that happens often where kids are like, “I don’t want any part of that.”

[00:02:52] PS: Yeah, that happens a lot. I mean, like we’re gearing up our third generation to get into the business, because that’s the thing. It’s that being that real estate is something that you can pass down from generation to generation. 10 years from now, the cellphone won't be – There’ll be something else, but the apartments will still be here, so it’s something that's solid, that's it's a hard asset that acquires and accumulates. Somebody has done the hard work, laying the foundation in the beginning like yourself or anybody else. The second generation can step in and scale it and take it to the next level.

Our whole family has a portfolio of 4,500. It’s just me and my brother. He’s got about 2,500 units that he also self-manages, and I got 2,000. I was little less involved and I didn’t – Like I said, even when I got older and I got in the business, I didn’t want to be a part of like the whole acquisition team and always buying and always buying these value-add properties. I just was happy with a little bit. Then little by little, I just started growing back into the business and acquiring more and more up until we did our biggest deal last year. The 800-unit was the biggest deal we've done.

For 20 years, I've been studying the business. But for a big period of my life, I was like, semi-retired, meaning that I could work 10, 20 hours and still manage the properties I had. Not many at that time, one or two. Then gradually, I just started acquiring more and going into the portfolio. Now, I'm pretty busy and pretty active in the field.

[00:04:15] WS: Okay. Tell me about the 828-unit deal little bit.

[00:04:20] PS: This property was five properties, 800-some units. The person – He is also a second-generation owner, I believe. Yeah, he was. He is definitely a second-generation owner, so he got these properties. He had them for a while. I think they were on the market for a while but they weren't like openly in the market. He didn't really give the exclusive listing to anybody. But he was actively trying to sell the properties for some time. The properties were kind of not very well-managed, not very well taken care of, distressed property. Two of the properties are high-rise buildings. A lot of people were interested in four of the properties, but nobody wanted the fifth one, which is called Bellevue Towers at the time, so called Bellevue Towers. I don't know what actually.

That – Because we were willing to buy all of them and we had a strong enough backing and we're able to buy all of them that we got the deal. But we really – There was no competition at the end really. There was just one other person, and they didn't want to buy the whole thing.

So, we had gotten the deal actually, and I turned the deal down. We're really close to signing on the deal, and just I had this really bad feeling in my stomach. It was Thanksgiving of 2018, and I was away with the family in Turks and Caicos, and I was supposed to – They had finalized everything. They had sent me the thing, and everything was very rushed and just didn't feel right. I had this bad feeling in my stomach, I had a really weird dream that night, and I said, "I'm not doing this. I'm just not doing this deal," and everybody was upset. The broker was upset with me. Obviously, the seller was upset. My partner was my father. He was upset.

A couple months later, they came back to us. The deal came back to us but it came back to us in a whole different way. The seller became much more relaxed and willing to work with us, where before he was just trying to push it and ram it down our throats. There were no real due diligence, and I had seen the due diligence, some of it. I had gone through, and we'd looked at the leases and things of that nature. I was just like, "Wow! This is a real weak tenant base here," and it was a lot of work.

Anyway, fast forward a little bit, when we finally did close the deal months of going back and forth and a lot of emails and all these things, like there were so many vendors like utility bills. All kinds of vendors were just not paid any money. They were all owed money. Other than the title issues like trash, water – Yeah, trash and water. Other than trash and water, like nothing was paid. And so, we were getting shut off notices from the gas company and some of the apartments would lose their heat and stuff that it was crazy, man. It was real crazy. And we've never done a deal like that ever.

After doing a deal like that, it was a crazy, stressful time. But at the same time, it was like, "We're never going to go through this again, so we might as well enjoy it." Then after like a month or two, like everything kind of leveled down. I started thinking in my head like, "I got to document this stuff, because this stuff is crazy, what we're going through. This is a heck of a reality TV show." I hired two guys to do video for us. As soon as I hired these guys, everything just calmed down and like the drama ended, like nothing to video and all that stuff.

[00:07:22] WS: Why no investors? Or tell me about how you acquired it with no investors.

[00:07:27] PS: A lot of the properties we'd buy and we bought properties, we never bought more than a six cap or less than a six cap. We always bought them – We bought what nobody wanted basically or it was the harder – Being an immigrant, sometimes it was harder to get into the fold of buying a property. Luckily, over years of building properties and building equity in the properties that we bought, we've done this for 15-year mortgages. So, every 15 years, a property would be paid off.

One property that we had bought for less than five million is now worth over – Valuated at over 20 million. It was 294 units. That property was paid off for a couple years, and so we're able to refinance that property and take 15 million from that property, add $5 million cash, and then we headed down money of 40% and we financed the 60% off the property.

The property wasn't in a – There's no way the bank would only give you 60% on this kind of deal because of the condition of the property. Because of that refinance of being able to pull out the 15 and then add 5 million out of our pockets, we're able to close the deal.

[00:08:39] WS: Wow! Tell me about the – I guess the thought process of putting that much capital in one deal of your own capital when potentially maybe you could've bought numerous properties or had investors and purchase numerous properties as well?

[00:08:53] PS: Yes. I just interviewed my father who's 80 years old now. I interviewed him a couple of – Just a few months back, I interviewed him. At the end, I asked him, "What would you have done different?" He said he would've gotten investors and he would've syndicated, because we started before Morgan Properties, and Morgan Properties stated years later. But they've grown to like 17,000 units or something like that or 17 states and 75,000 units. I don't – I can't remember the numbers, but they're huge. You know what I mean? But that's what they did.

But at the same time, I'm very happy with where I am of not having to have a strong base and to be able to finance properties and use your equity. I have a couple properties now that I have equity in that I can – If a deal comes – Right now, I'm not actively looking or anything because I'm really kind of just dealing with this whole situation that's happening in front of us and with really uncertain territory and uncharted waters for a lot of people. Just getting through the next few months is going to be an incredible journey.

[00:09:53] WS: Right. Now, you all have done extremely well obviously, but I just wondered the thought process behind one way or the other. I always like to figure that out for people or why you choose the syndication versus not syndicating, especially a property that size.

[00:10:06] PS: I didn't even know what the word syndication was until a few months ago.

[00:10:11] WS: Until we invited you on the show. No, I'm just kidding. Tell me about self-managing even that many units and why you choose to self-manage versus not.

[00:10:20] PS: Again, that's just something that's in our family blood, I guess. We've always done it that way. There was one part of my life when I started reading these Robert Kiyosaki books and I thought that getting a property manager would be beneficial or a good thing to do, so I did that. I went out and gotten somebody to manage one of the properties. In six months, we took it back. I thought that maybe they would be smarter than us or be able to do a better job than us. I just didn't see that.

Today, I'm happy I learned that lesson and I'm happy that to be actively involved, because even on a regular basis, like we deal with a lot of situations on a regular basis. But just going and being a physical face at the properties, talking to people, working with people, and they see you and you see what's going on. It's like just showing up even for a little bit makes a big difference. So even people that are – They might have a property management team but they're asset managers, they go and just by showing up on a regular basis. You got to make physical contact with your property. It's just like when you buy a property. You can't just look at it on the Internet or look at it on paper. You got to physically go and feel and touch and feel and experience that property.

The same way, once you acquire this asset, you spend so much work and time into getting this asset. You got to go there and you got to show up, even if it's just to like show your face every once in a while. It makes a huge difference.

[00:11:37] WS: Sure. Tell me a little bit about the just day-to-day, managing that many units yourself and what that entails.

[00:11:45] PS: This is another side note too. It's like we get the money both ways too, because they only get the money as the property manager. Then we also get the money as the investor, whereas though if I have somebody else's property manager, they're getting a huge chunk of the cash, so now –

[00:12:01] WS: Are there some specific ways that you know that you're more efficient than when you hired third party or if you did hire a third party?

[00:12:08] PS: Nowadays, they got their computers and they got their flowcharts and everything, and they have become very sophisticated. I'm not saying that they couldn't do a better job than me, but it just makes it a whole different. Every business, no matter what that business is, I don't care if it's apartments or anything, it’s an expression of the owner, and so the owner’s expression goes into that business. Whoever you have the property manager, whoever that owner or that property management company, it’s going to be an expression of them. To have it your own and to have that hands-on approach, it just makes a huge difference.

[00:12:42] WS: No doubt about it, and I hear both sides of the coin a lot of times, guys that want to self-manage or have their own management teams and ones that won't don't want anything to do with it. It’s just –

[00:12:52] PS: I mean, I’ve always been that guy though. I’ve always been that guy, like I didn’t want anything to do with it. I wanted to run from it. I just wanted – I like the money side of things. I like the investment side of things. I like the deal side of things of making the deal and negotiation, all that stuff. That’s great.

My father's best superpower – You call it the superpower, right? His superpower is finding the right deal, knowing exactly what that deal should cost, and negotiating the right price for that deal, and if it’s too high, being able to walk away. That's what he's always been good at. But at the same time, he's never left the hands-on property management approach of going to the office, looking at the vacancies, looking at the thing, dealing with issues, helping the contractors figure out what they need to do.

I can go to a property for a few minutes and just look at things and share ideas and stuff and then to see them. The feedback that that gives, it's just very productive. Creating the systems and everything is a fun process now for me of just having the systems, working with the people. It’s like as investors, I often say like, “We’re not just looking at the ROI. We’re not just looking at the numbers of what we’re going to get out of the property. We’re putting our love into this property. We’re putting our love into these people and investing in the community and investing in our own people." It's like building an organization and building community, and it's a whole thing that I never really saw it that way until recently.

[00:14:11] WS: Wow! Tell me a way that something you learned from purchasing that 828-unit property that maybe you didn't expect.

[00:14:19] PS: Well, there sure are awesome things. I mean, we never had to deal with anybody we bought properties from that the person just owed a lot of people money, and a lot of people were calling us, sending us bills, and we're like talking to all these people. He's just like, "Well, tell them you're not the owner anymore. You don't owe them. You had bought the property. You didn't buy the debt." In some places, that flied. In some places, it didn't. We would have to pay some of the bills sometimes, depending on what the situation was. The phones were shut off in a high-rise building the first week. We thought that we could just get another company. We could get Comcast to be the phone company. In order to have those numbers reported out to another company, we had to pay that company off. And so, we just ended up keeping that company having to pay the back bill in order to keep it in.

I learned a lot, and it was very exciting and it was like a real fun time, and things came together fast for us and that high of doing that deal like I was looking for my next one. Then all of a sudden, something told me to just be patient and wait, because I knew something was coming down the pike. I didn't know it was going to be this drastic but I just had this feeling.

Again, my gut feeling of something's happening and you just need to chill right now. Build up more equity, build up more reserves, and the deals will be coming soon at the right time.

[00:15:33] WS: Tell me about managing that property how has that changed since the coronavirus and all this has happened no. Just maybe some things you all have had to do or implement because of all this?

[00:15:45] PS: We lock our offices. We don't allow tenants to come in and out as we try to alleviate as much as possible contact other than other than handing over a package or taking a rent check. Now, everything where we are in Pennsylvania is on emergency mode. The only like

– Everything is shut down. People are at home or supposed to be staying at home. But our business is life essential. It’s essential to life, and so we’re on emergency protocol.

So, if there's like a leak or something like that or the electricity is out or those type of things, we want to take care of those deficiencies but we’re not like operating day-to-day. So, most of the – I got the guys working at empty units most of them and just kind of staying in their own space. We’re just trying to ride this thing out.

Luckily, for technology and getting more and more people – because a lot of people are just like so hesitant to the older tenants and things in a lot of the C class properties too. People are still hesitant to pay online. For you and me, where everything we own is we just want to do it on our phones or we want to do it online. People just still don't see it. A lot of people still don't see that as a convenience to them. They still see that they’re like still – I don't know what it is and what resistance they have to it. But they’re still like want to pay with a check or pay with a money order or something like that. But more and more now, hopefully this is helping in that area too of getting more people to use technology.

[00:17:06] WS: Yeah. How do you forecast, say, the next month or two, going through this issue or this virus?

[00:17:14] PS: We’re going to see now. I mean, because right now, I just heard that there’s 120-day moratorium on evictions. Then after that, there's like a 30-day. Then you can give like the 30-day eviction, so to speak. This is totally like unheard of and unchartered, so we’ll find out this month. I mean, ask me in 30 days and I can tell you. I can give you a better answer. But right now, this is just the beginning. This is – We’re two weeks into it. With people losing their work and works being closed – Is everything shut down where you are too? Or is it everything is stay at home and like –

[00:17:50] WS: It is. Everything is shut down, yup.

[00:17:52] PS: It’s pretty much the same thing that we’re experiencing right now, so this is unprecedented. It's unheard of. I’m really grateful for some reserves, and we’re grateful that we have some equity in some properties because if we were paying mortgages all the way across.

We'd be very concerned, and it's still concerning too. We're kind of like – I've taken a proactive approach in like talking to my managers today and told them like, "Here is my five bullet points of dealing with people who say they are out of work or they have been affected by the virus."

"One, documentation. Two, unemployment. Have you gotten unemployment? Can we help you? Referring them to certain places. Three, how much can you pay the first week of the month? Whatever balance you carried, can you – You want to pay that off for a six-month? Because we want to get you ready to start paying again in May." That's our goal. But now, things are being drawn out even more. Every night just last night, the president announced pushing things back to the 31st so that moment to moment this thing has changed. Even if you have all your ducks lined up, even if you got your systems in place, tomorrow could be a whole different show again.

The key in business is adaptability and innovation. You always got to change. You can't be stuck on the same.

[00:19:07] WS: Great advice right there. You have to be willing to change and adapt. That's for sure. What has been the hardest part of this process of just buying apartments or owning apartments for you?

[00:19:18] PS: The hardest part?

[00:19:19] WS: Mm-hmm.

[00:19:19] PS: The hardest part is dealing with people and managing expectations. Sometimes, I'll go, and my people blow me away with how awesome the work is, but that's rarely the case, so you kind of think like usually it's the opposite side of things. In taking a hands-on approach, I hope none of my employees are watching. But in taking a hands-on approach, a lot of times I'm like the Mr. Magoo approach. I don't even want to see what the heck is going on or early on that level because if I see it, like I'm just – I'll see too much and I get like so crazy in my head about what I think is not perfect or not right the way I want it. Yeah, it's people.

[00:19:56] WS: How do you account for that or get past that?

[00:19:58] PS: It's really understanding that people are – I got to be the motivator. I got to be the communicator. I have to be the one that I have to be forgiving. I have to be understanding. I have to be all these things and I got to understand that we live in an imperfect world, that nothing's – I'm less and less of a perfectionist each and every day. If I was a perfectionist, I'd drive myself crazy.

So, I've really, really given up being a perfectionist in this but understand that's about progress and not perfection. As long as we're moving the thing in the right direction, I'm happy now. But if I'm going to get to the place where everything I wanted is the way I want it, it's just not going to happen, and I'll kill myself with stress.

[00:20:38] WS: What's a way that you've recently improved your business that we could apply to ours?

[00:20:43] PS: That's a good question. What's the recent thing? I mean, for me, business is all about the right people, the people you hire and the people you work with. I've been very lucky and very blessed lately in the last year or so to bring in new people and new blood, younger people, people that are much more – Technology just comes easy to these guys, whereas my older kind of employees are like kind of still – They got that hesitation. They got that reservation. People say millennial's are this and that, but like I found that these guys are great with what they're helping me do. I just feel like I can let them – I'm always constantly guiding the wheel, so to speak. But at the same time, I can more and more let them drive.

[00:21:27] WS: What's the one thing that's contributed to your success?

[00:21:30] PS: Just commitment, longevity, playing the patient approach. I'm not really moving too fast, too hard, too fast, because there's a lot of big guys right now. They're going to wish that they had to slow down and not 10Xed everything. I think the slow and steady wins the race.

[00:21:50] WS: I agree. Tell us how you like to give back.

[00:21:54] PS: By purchasing properties that are distressed, mismanaged, and sometimes usually unsafe at the same time and making those decent places to live. That's giving back.

That’s giving back to the community. You’re helping people to live in a place that’s more harmonious, more safety, and more peace of mind. They’re more in a place of peace.

Like I said, investors are people who are investing into the community and making the community a better place. People who are not giving back and not putting the money back and the love back into their properties, it becomes like a black hole. It becomes like a dark hole and it's not good. It’s not good for any of us.

[00:22:30] WS: How can people get in touch with you and learn more about you?

[00:22:33] PS: Direct message or Instagram S as in Sam, N as in Nancy, S as in Sam. @snspropertiesinvestment is the Instagram tag. Then on YouTube, we got a YouTube channel, Sharma’s Karma, that we just started a few months back.

[00:22:48] WS: Sharma’s karma. I like that.

[00:22:50] PS: Our KarmaKast is our podcast and there’s Sharma’s Karma.

[00:22:53] WS: Awesome. That’s a wrap. Thank you very much.

[END OF INTERVIEW]

[00:22:56] 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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