

**EPISODE 682**

[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 Mike Morawski. Thanks for being on the show, Mike.

**[00:00:32] MM:** Yeah. You bet, Whitney. Thanks for having me.

**[00:00:34] WS:** Mike is a 30-year plus real estate veteran who has controlled over \$285 million in real estate transactions. Mike is an entrepreneur, author, real estate trainer, public speaker, and personal coach. With a strong personal resilience and deep desire to help others live an extraordinary life, he has coached hundreds of real estate investors to fulfill their dreams.

Mike, grateful for your time. I'm thankful to have you on the show, just your level of experience. I love having guys like you on the show that have just been in this business a long time. You're coaching hundreds of people, helping so many people in this business. You see so many problems. Thankfully, they weren't all yours but you're helping people that are you having these issues, and so I know you have just learned a lot and you've been able to help so many people. Grateful again.

Why don't you give the listeners a little more about who you are and maybe your background in real estate briefly, and then let's just jump into – And tell the listeners too you got a book coming

out, and it's called *Exit Plan*. We're going to focus on some of that today during the show. But give the listeners a little more about who you are, and let's jump in.

**[00:01:37] MM:** Yeah, sure. Thanks, Whitney, and I really appreciate you having me. One thing I want to say is we can get all the knowledge in the world, right? Knowledge is great and it's really powerful, but what really transpires is wisdom. So I think people learn by our experiences, whether they're good or bad. Then we live that out through our resilience and how we bounce back from maybe a challenge. So I just like to focus on that a lot because I think it's an example for people, and it becomes our behavior and who we are at the core.

But my experience has been I had a general contracting business for about 15 years and I woke up one morning and I was burned out. I was still pounding nails and I said, "Boy, I just can't do this anymore." Along the way, I had done a number of buy and flips and fix and flips, and this was long before it was fashionable, right? I sold my company, took a year off, and decided to go into real estate business. I really believe that success leaves clues because during that year, I finished a house that my wife and I were living in at the time, and we were trying to sell it by owner, and the real estate agent who sold it for us was very good and got us more money than I ever thought possible.

When I made the decision to go into business, I went to Todd is his name, and I asked him if I could shadow him and learn from him. He said – He was I'll do better than that, and I'm going to date myself now, Whitney, because he said, "I'll make you a cassette tape to listen to," and he made me like a 45-minute cassette tape that I listened to continually and learned everything. So my first year in the real estate business as a sales agent selling single-family homes, I sold 78 houses and was RE/MAX rookie of the year. I built a team, sold over a hundred homes a year. About 125 houses a year was the last year we're in the business, and then I went into the private equity business. Raised about \$18 million and bought \$60 million worth of real estate in a very short period of time. We unwound that deal, I went in the property management, and then I built and sold two property management companies after that.

Today, I've taken all that knowledge and all that expertise and packaged it up. Put it on a platform that I coach and train people, and teach them how to invest in real estate, how to

operate their deals and how to be successful along the way, but most importantly how to live a quality balanced lifestyle.

**[00:04:04] WS:** Nice. So that's awesome. I mean, you went from residential to private equity to property management companies, and building two of those companies and selling them now and helping tons of people and just getting into real estate and be successful. I want to focus though on just your book that's coming out and really think through because I can relate to this our first property. We did not think about the exit plan. It was 2009. It should be an amazing time to buy a property, right? But we did not think about that, the exit, and I remember that specifically. Now, even outside of real estate, things that we do on our personal side or even a personal home, because of that first deal, I think about now what's our exit plan.

There will be a time we need to sell. There will be a time that you're not going to live in this house forever or you're not going to own this property forever. What is our plan? So I would love to jump into that a little bit with you, and let's just break down some of the stuff that you highlighted in the book and some places that people mess up when thinking through an exit plan or not thinking of one. Why don't you get us started in just some things that we should be thinking about and why the exit plan is so important?

**[00:05:10] MM:** Yeah, sure. Like you said, I have a book coming out in September, and it's called *Exit Plan*. It's everything you want to know about multifamily investing. That came to be because I feel over the years I've spent hundreds of thousands of dollars on books and tapes and coaching and training, and I've been personally coached myself for the last 20 years, and I've always been left empty, trying to figure out what the next step is or the right way to do something. What I figured out is nobody teaches you how to get out of a deal. Everybody teaches you how to do a no-money-down deal, how to get into a deal. Listen, there's a lot of great trainers out there and there's a lot of great information. But I think that you need to know how to unwind a deal and how to get out of it because if you're unclear on that and you're unclear of what your future holds, how do you know what to do or when to do it?

I think what I talk about in the book is I talk about different exit strategies, different timing around exit strategies, and how you should preplan the whole thing. When I'm going to buy a deal, I will go to a local coffee shop, and on the back of a cocktail napkin I'll pencil everything out and take

a look at it. Then another one, I'm going to write, "Okay. So if I hold this for five years and I take this much depreciation, here's what it looks like and here's why I can't use it anymore." There's a lot of reasons that go into that planning to help you make smart choices and smart decisions.

**[00:06:42] WS:** Nice. Preplan it, right? I mean, you walked through that a little bit there. What is going to happen if this happens, if this happens, if this happens? Can you dive into that a little bit more? If somebody's looking at purchasing a property right now, what are some other things that need to be taken into account or maybe that you think through? While you're working on that napkin right then, some other things that maybe people don't typically think of.

**[00:07:05] MM:** Right. In the book, I model a property that I bought, and I've changed all the names in the book and all the property names just to kind of protect the current owners and people like that today. A deal I did in Dallas, 450 units. First of all, we bought the deal creatively. So when we look at how the owner who we bought it from owned the property, he had just done a refinance and pulled \$2 million capital out of the property, tax-free. But when he refinanced it, he had a prepayment penalty on it. Well, a couple months after doing that, his dad got sick with cancer, and he lived all the way across the country, and he didn't want to travel back and forth anymore. So he became a don't [inaudible 00:07:48]. He became somebody who didn't want to own a property anymore, so he sold it.

So this goes to exit planning, right? If he would've just sold that property outright, he would've had a 5% prepayment penalty. It would've cost him about \$750,000. But because he sold it creatively and he was slowly able to take his money, he lessened his capital gains and he avoided any prepayment penalty over a period of time. Now, what we did when we bought that property is we looked at what our exit would be, so we could get into it slowly. Whitney, I bought a \$16 million piece of property with \$250,000 down. That's kind of an interesting creative structure. People say, "Oh, you can't do things creatively in the multifamily space." Yes, you can, and there's plenty of owners that one out are don't [inaudible 00:08:48] and have interest in moving on.

But when I looked at my exit planning on this, I had to figure out, okay, how long am I going to own it and what am I going to do along the way. I knew I had \$1 million in CapEx that I needed to put into the property. As a result of that, I'd be able to raise my rents about \$800,000 a year,

so there was a big return on the CapEx versus the rent raise and what the new profitability would be on the NOI, right? So I was able to project that and say, "Okay, if I hold this for seven years, I do this CapEx, I raise these rents, and I accelerate my depreciation, so I don't get it clawed back by the IRS at the end, I make a pretty healthy profit come year seven." So when we did that deal and we were able to unwind it, we actually were able to get out of that deal sooner than seven years. But it's the exit planning that helped us do that.

How do you trade out of a deal? There's different ways, right? You could sell it completely. But when you do that, you have no more cash flow. You have no more depreciation. You have no more benefits. What if you refinanced it and pulled your capital out and held the property? What if you brought an equity partner in? What if you brought a series of partners in, what if you took it institutional? Do I want to take it fast? Do I want to take it slow? Is it going to benefit me? How am I going to capitalize my expenses? Are they all expenses? Are they capital appreciation? There's a lot of things that we look at in that planning process.

I teach people a lot in my coaching program about how to create wealth with small multi-families, two to four-unit properties, because those are the people that all of a sudden one day wake up and go, "Hey, I can do something bigger and make a transition from that small portfolio of two and four-unit deals to 12- 2,000-unit deals, right? If you teach people early on how to manage, how to run a property, how to lease basic things that keep people away from doing bigger deals because they just don't know how, and you teach them early on, hey, it's like teaching a baby to walk, right? If your baby gets up and he's going to walk across the floor and he falls down, you're not going to let them sit there. You're going to pick him up and help him to do a little bit more, right? It's the same way with an investor. How do we help them walk a little bit more? How do we help them grow?

**[00:11:25] WS:** Nice. Yes. I was thinking about exit planning and some things you are mentioning there that you're accounting for when you're walking through those scenarios. What about things that you just don't know to account for? Outside of, say, depreciation, like things that we might – We hopefully we think of to account for. But I was even thinking about like that seller. He had a parent that either passed away or got sick. Things like that you can't account for. Are there ways that you take some other things like that and do account when we're thinking through deals like that?

**[00:11:58] MM:** Yeah. I think that there are some things in life that you can't account for. There are things in our life that happen all of a sudden and, you know what, something can change in a split second, right? In 30 seconds, your life is different. I come from a philosophy that people's lives change every 30, 60, and 90 days, and can change even quicker than that. You take this seller whose father all of a sudden shows up with stage IV cancer, right? Sad situation, tough situation, but unfortunately it happens in life and those are the things you can't account for.

What you can do though is you can preplan. There's this thing called reserves, right? The bank wants you to have reserves on your property in the bank. You could increase your reserves to account for things like that. You can think ahead of time when you're sitting down to get a loan and the lender says, "Oh, this has got a prepayment penalty on it." A lot of times, people just go, "Oh, who cares? I'm not going to sell it anyhow." But think that through. How do you avoid that or what would you do in a situation where there was a prepayment penalty? What happens if something comes up in your life that causes you to have to react differently and you have to sell a property and now you're responsible for thousands of dollars in capital gains that you didn't expect to have to pay, right? It hurts your future.

So I think that you have to at least think about these things ahead of time. You can't always plan for everything. But even in the event where there is some act that goes on, there's an emergency plan, right? How do we get people out of a building or off a ship? You have to have some type of an emergency plan, pre-thought out.

**[00:13:50] WS:** Do you have some kind of like exit plan checklist or something like that that you've developed over the years that say, "Okay, I've thought through these things before we're going to acquire this deal. Here's different exit strategies that we have definitely thought through. Run the numbers. If this happens, this happens, this happens."

**[00:14:07] MM:** Yeah. You know what, Whitney? If you pick my book up in September and you read the table of contents, that will really give you an exit plan checklist, and it's funny you even mention that because as I think through what that table of contents is, everything from the preplanning stage to the execution stage to the operational stages, it's all preplanning, and it's things that we have to think about along the way.

**[00:14:32] WS:** Also, just during the preplanning, one thing you said earlier was like increasing your reserves. I'm really big on having a large emergency fund and having adequate reserves and more so I feel like the most operators that I've talked to. Do you have a specific way that you might like to think about reserves or that you calculate that or this much per door? Or is there any way that you go about that?

**[00:14:57] MM:** Yeah. One thing I like to look at is I like to look at at least 50% of what the bank is requiring in another reserve account. If that bank is requiring \$125 a door for reserves, I'd like to put another 50 to 75 dollars away on the side just to have that in case of an emergency. Unfortunately, sometimes insurance doesn't cover everything. I had a property one time where the building burned down as a result of a tragedy that happened inside, and the insurance company didn't cover everything. But because we had put some money on the side in a reserve account, we were able to make up the difference and complete the work that needed to be completed to get the building back online. So we have to think through some of these things prior to an event.

**[00:15:50] WS:** Yeah. Or you don't know what you don't know, right? Nobody knows what tomorrow brings, but I think you have to have a plan. I love how you've thought through this, and the exit plan is so important before you go into a deal. What are some or maybe one [inaudible 00:16:03] or a couple things, big issues you've seen people do about exit planning or mistakes they've made? Maybe clients of yours or students, some issues that they've had and they've come to you now and said, "Okay, Mike. I wish we had planned for this, but what do we do?" What were a couple of those issues that you've seen?

**[00:16:21] MM:** Yeah. I saw somebody buy a property one time, and all of a sudden all these structural problems occurred. Actually, I probably have a better story than this one. I bought a building in the City of Chicago one time, and it was a demo building, so we pulled it out of demo court, and the guy we bought the building from had blueprints and permits to do this construction work on it. So we bought this 14-unit property and we go in and we start doing work. Well, the first inspection that comes out, the city comes out and does that inspection, and we find out that there are some asbestos.

Here's a situation we didn't account for because we were thinking that it already had been demoed, the inside. It was cleaned up, it was all the EPA stuff was taken care of, and it wasn't. I think that there's things that come up along the way that we need to look at. One of my lessons I teach is the residential real estate lease and it's very long. It's about 10 pages long and it's exaggerated, right? But I don't believe that everybody will use it but I go through a lot of points. People say, "Well, how did it get so long?" I said, "Well, it got so long because there's mistakes that happen along the way." Every time a mistake happened, I decided, well, we need to put this in the lease to make sure that we're covered in case it happens.

Here's a situation that the city comes out. Now, I have to encapsulate the whole building. I have to have somebody come out and abate the asbestos, and it costs \$50,000 of unexpected costs that we were unaware of. But because we had some reserves and because the bank worked with us, we were able to resolve the issue, take care of it, and move forward. Yeah, it hurt our profit but we got it taken care of.

**[00:18:16] WS:** Nice. Well, Mike, what's been the hardest part of the syndication journey for you?

**[00:18:23] MM:** The hardest thing was the first deal I ever did. First of all, it was getting started and getting the funding done that first time. My first syndication deal was an 11-unit building, and I didn't do any due diligence, Whitney. Probably one of the biggest mistakes. This goes back to planning and exit planning and preplanning. Carpenters always say measure twice and cut once, and I believe that that's the philosophy we need to have. I take a look at that first deal and I say we rushed into it. We did the wrong type of loan. We didn't do any due diligence, and I believed what the seller said. The seller made all these promises and indicated all these things saying that the deal was \$75 below market rents, and we can immediately start raising rents. Well, it's probably \$50 over market rent, and we had to lower some rents in order to keep the place full, and there were issues and problems that we found when we went in to start doing construction, and these are things we didn't look at.

If you do your planning and you do your due diligence upfront, due diligence is a very big piece, right? Are we buying the right deal? I see too many people get married to deals, Whitney, and decide, "Oh, this is the greatest deal ever," and they wind up with challenges. I've been there



myself and I've done that my own experience. You don't see the red flags along the way. You fall in love and you get married and all of a sudden you end up in an ugly divorce.

**[00:19:57] WS:** No doubt about it. You get emotional or I have to get emotional about that, especially that first deal, and you don't do the things you should during due diligence and like trusting the seller and what he told you there. I could relate to that a lot on my own first deal as well. What's a way that you're prepared for a downturn? Are you all prepared for this downturn when you're looking at deals and you're doing that planning like we're talking about?

**[00:20:22] MM:** Geez, I don't believe that you can ever be prepared for a COVID-19 or – Here's what I know though. We got through 2001 and we got through 2008 and we'll get through this again. We're resilient as a country and resilient as an economy, and I believe we have some good leadership around that stuff. But I don't know that you ever plan – Yeah, you can look at cycles and you can look at history and you can say every seven years there's going to be a recession. If we're buying this now and two years from now we're going to have a recession, that might or might not ever happen. But I don't believe we can live our life that way either. We have to keep moving forward.

Here's what I know. I've made money in real estate in down markets, and I've made money in real estate in really hot markets. So you can play either side of that fence and you can be successful if you know how to watch what's going on.

**[00:21:17] WS:** What's a way you've recently improved your business that we could apply to ours?

**[00:21:21] MM:** Wisdom. I think it's thinking things through. A lot of times, and I said this before, we get too excited. We get emotionally involved. I don't care what the – It could even be going on vacation but think it through, and this is one of the things I try to teach my kids today is, "Hey, listen. Think about your actions. If you put something out there in social media today, that's memorialized forever. And be careful what you put out there because it may come back to haunt you. You might not think so today. But 20 years from now, you may be trying to get a job as a CEO of a company, and if you did something silly today, you don't know what's going to happen." I think it comes down to the fact we need to think things through and take a look at it.

**[00:22:07] WS:** That could be a little due diligence right there and thinking things through.

**[00:22:11] MM:** Yeah, for sure.

**[00:22:12] WS:** What's your best source for meeting new investors right now?

**[00:22:15] MM:** I think the best source for meeting new investors is – I'm a big networker. I love networking and I love asking people like yourself, "Hey, who else do you know who might want to be on my podcast or who might make an interesting conversation?" LinkedIn is really hot right now. I think there's a lot of networking going on on LinkedIn as a social media platform that I haven't noticed in the past or maybe been just not in tune with it. But there – If you look at people's profiles and you reach out to – Who are you trying to attract to your life? Who's the investor that you're trying to attract? If you have that avatar, that's the hot word these days, the avatar, what do they look like? What's their age demographics? What is their occupation? What's their income? Go to LinkedIn and look for those profiles and ask for referrals.

**[00:23:09] WS:** What's the number one thing that's contributed to your success?

**[00:23:13] MM:** Not giving up. Not letting my failures or my setbacks put me in a position to say I quit. To be very resilient and to continue to move forward. Not every day is great. However, if we move forward, we may come great on our own.

**[00:23:33] WS:** I love that. I know one of the first things you mentioned during the show is just how you bounce back like from a problem is what's important. I didn't say it exactly like you did I know but you said what transpires is wisdom and bouncing back. How you bounce back is what's important, so that's incredible. How do you like to give back?

**[00:23:51] MM:** I try to do a lot for other people and sometimes I feel like I fall really short. I have two passions that are really close to my heart. One is homelessness. I think it's a real epidemic in this country. I live in the city, and you can drive down any street, and under the [inaudible 00:24:09] there's a little tent city set up, and it's sad. There's a lot of sadness. But I think one of the greater things that I've been paying a lot of attention to lately is human

trafficking and what is going on with that and what happens around that. There's some real opportunities out there for people to help others.

Tim Tebow is a great model for rescue and helping, and I just think it's a real issue in our country, in our world, not just our country. I think they're both situations that need to be looked at.

**[00:24:45] WS:** Nice. I appreciate you bringing up those issues. No doubt. Homelessness and end human trafficking, just horrible, horrible issues that need to be dealt with. I appreciate you giving back in that way, Mike. Tell the listeners though how they can get in touch with you and tell them how – Obviously, you have a book coming out. Where can we find that? I know you have an event coming up as well that they need to be made aware of.

**[00:25:08] MM:** Well, after the 1<sup>st</sup> of September, we'll have some presales on our website. My website is [mycoreintentions.com](http://mycoreintentions.com). Anybody who wants to get in touch with me, I'm [mike@mycoreintentions.com](mailto:mike@mycoreintentions.com) and I would welcome any calls from people who have questions, need help, looking for some direction. Matter of fact, you can go to my website. Sign up for a free 60-minute coaching session, and we'll see if we can get you a couple nuggets that would help you grow personally, as well as professionally. I think that if we don't grow in both areas that we're staying stagnant.

[END OF INTERVIEW]

**[00:25:43] 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 [lifebridgcapital.com](http://lifebridgcapital.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]

**[00:26:24] ANNOUNCER:** Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at [www.LifeBridgeCapital.com](http://www.LifeBridgeCapital.com) for free material and videos to further your success.

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