

Episode 705

[INTRODUCTION]

[0:00:00.0] 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]

[0:00:24.4] WS: This is your daily real estate syndication show. I'm your host Whitney Sewell. Today, our guest is Leka Devatha. Thanks for being on the show, Leka.

[0:00:32.1] LD: Thank you for having me Whitney.

[0:00:34.9] WS: Leka is a first gen immigrant and move to the States from India 13 years ago. She gave up a successful corporate job to start investing in real estate full-time in 2016. Her expertise lies in large scale remodels, additions, multifamily value-adds. She is on the board of a FinTech company called Certain Lending and hosts a monthly meetup call to Real Estate at Work. Leka, thank you again for your time just being on the show. Looking forward to hearing more about your story and also just leaving the successful corporate JOB, right?

I know there's many listeners that are in those same shoes. You know, I was there as well at one time and it's a big step, it's a big decision and a big pivot for most people. Just look forward to hearing more about your background. Why don't you get us started and a little more about that and what you were doing and how real estate came about?

[0:01:25.6] LD: When I moved to the country, I had a pretty successful career in fashion merchandising back in India and so it was a very natural step for me to do the same thing here. And I fortunately for me, I moved to Seattle and Nordstrom is headquartered Seattle and they

have the most amazing corporate culture and just a great company. I joined them, I was in retail merchandising and buying and it was a job that anybody in the company would have killed to have.

I was so grateful to have that but something inside me just didn't sit right. I've been an entrepreneur before I knew what that meant. At the age of 18, I think I started my first small company and so I've always wanted to – like I saw the light in working for myself and you know, I just had to do that, I had to go and explore and find something that I was going to be passionate about.

That's how I moved to real estate investing. When I still had my corporate job, I studied about investing. I joined the program, I took a lot of courses, I started listening to podcasts. And so, one day, I just decided, you know what? I'm not going to give that my all if I continue to do a nine to five job. That was really quite stressful. And so, I just walked into my boss's office and I said, "Hey, today's you know, I'm basically giving you my notice. I'm going to go out and I'm going to try and do this, I'm going to fail miserably but that's okay."

That's pretty much how I made the switch, started my company about six years ago, started fix and flip because you know, that was just like a quick way to learn the investing game. That was back in 2014. And since then, I flipped over 40 homes, spearheaded hundreds of real estate transactions and yeah, I'm on the board of Certain Lending and I run a successful meetup. Lots of good things came out of that.

[0:03:28.2] WS: Awesome, I apologize, I mispronounced the Certain Lending a minute ago but that's so interesting and it's such a big step, you know, you went into your boss and you said, "I'm practically giving you my notice, I'm going to fail but it's okay." Did you fail or has it been a success? How did that turn out?

[0:03:44.0] LD: Yeah, I mean, my first project was a miserable failure. I'm the first to admit it. But through those failures, I learned so much that helped me like just basically set me up for success on my future deals that I was okay failing. But that's the thing is, after that, I started to really make profits on every single deal that I was like, fortunate to have had that failure to kind of set me up for that kind of success.

Yeah, absolutely, And then, since then, my god, you know, you just find all these amazing opportunities, I met the most incredible people, I am fortunate to be on a show like yours, you know? Yeah, I could only tell you that this has been such a huge success for me and my family and you know, just ultimately leading to my end goal of being able to create a legacy.

[0:04:41.7] WS: What gave you that mindset of being okay with a failure of the first project and ultimately, I would say now, it was a success, right? You know, even though the first project didn't go so well. Mine was very similar, did not go so well, however, it was our own university, I call it, we learned so much. What helped you to think, have that mindset of even if it's a failure, it's okay because we're going to learn so much, we're going to keep moving forward.

[0:05:06.7] LD: On that first deal, I was going to lose a hundred K if I didn't hustle and I did. I worked hard till the very end and I instead only lost five grand. That taught me so much, that taught me that if I just took the same principles on a different deal where I had the numbers right where I had the right team, then I could only succeed, there was no failure. I think that was a huge mindset shift I would say. And really, I think surrounding myself with the right people and not being afraid to ask questions was what led to my future successes.

[0:05:49.1] WS: Nice, yeah, you can't be afraid to ask questions. Why don't we dive into your business model just a little bit where you're located and what you do and how you've – you really doing different things and being creative to make things happen, just fill us in a little bit on what your business is.

[0:06:04.0] LD: Yeah, sounds good. I'm located in Seattle, Washington. It is a super hard real estate market. It has been for the last decade. When I first started, I wanted to really do a new construction but that was going to be a longer-term process, just more risk. And so, that's why I switched my plan to do fix and flip. It was just quick, in and out, you know, I got really good at it.

And then I started to do larger, down to the studs remodels. I took on more projects with more up site to it but also more work. Now, that's kind of my skillset is doing really large scale down to the set remodels and that's kind of morphed over the years too, to now a sub-divide land, I do additions on projects. And lately, I've been buying two to four-unit buildings that can really

distress state and adding value to it to significantly raise rents and raise value and do cash out refinances to then go ahead and do it again. That's been so much fun to learn too.

[0:07:07.7] WS: Tell me a little bit about how you're scaling a business like that?

[0:07:12.0] LD: Yeah, you know, in initially when I first started, everybody only has so much money or so much time, what I learned to do very early in the process of this whole investing career was use OPM or other people's money. And so, I started to raise money from other people that were investing that maybe they didn't have as successful of an experience as I did and so, they thought I was better to lend me their money and like watch me do my things so that they could learn from me and like really partner with me.

For me, what I did was, the minute I started using other people's money. I just had to deliver, there was no question of failure. And I was doing eight, 10 deals at a time and in my area, that mean, eight, 10 million dollars, right? A, I got really good at asking for money because I had a proven track record to show that hey, most of my projects were massive successes with huge returns.

I was able to offer like either a killer interest rate or a killer like JV deal where they would make 30% of the profit and they were all for it. Because these were aspiring investors, experienced investors that just didn't want to work so actively that they wanted to now start investing passively but invest with an experience and successful investor and that's where I came into the picture.

That's really been the ultimate prize in having to scale my business where before I could do like two or three deals and now, I can do eight or 15 deals and more because I have all these lenders already lined up to take on these amazing projects. Truly, that's just such a remarkable tool because not only is it helping me scale but it's also helping a passive investor make money in a more –

I want to say safe way. That's been the biggest step towards scaling for me.

[0:09:16.2] WS: Tell me a little bit about just that relationship, especially early on with an investor when you're doing so many different types of business models, right? It's all real estate but you're getting very creative with how you're adding value to these properties, you've done a lot of different things.

How do you explain that to somebody because it's not like that investor looks at us and says, "Okay, you know, you'll have a track record of large multifamily," you know? I can't say that okay, well now, all of a sudden, I'm going to go over here and buy this – some kind of random asset that we've never done before and talked to investors about that. How have you really built that trust amongst lots of different types of deals?

[0:09:52.1] LD: Yeah, a couple of different ways, the first thing that I would say is I over-communicate. I am just bringing them in on many different conversations. I'm showing them, I'm walking them through my different projects, I'm showing them my different deals, I'm showing them a track record of how I've been able to succeed and what I did to succeed. Pricing strategies when it comes to exit strategies.

And then, also, here's the other thing. One way to safely setup someone else's money is by just giving them a straight up interest rate. That is just safer than doing a JV or equity partnership. When it's a new kind of asset that I don't know myself, that I'm taking on for the first time like I'm doing in addition or I'm doing a land subdivision, the way that I would set it up is I just give you a straight up interest rate and that way they're, feeling safe, right?

Because they get their money every month and then when I'm done, I either do a cash on refinance or I sell the asset and so then they get their principle back. I think, just having done so many deals and having partner with so many people, I can show them ones, I can show them edges over communicate and just bring them in on every conversation, I think. That's like the best way to be transparent.

[0:11:13.2] WS: Nice. You know, you talked about getting good at asking for money, can you give the listener just a few tips on that conversation that's difficult, especially and initially when you don't have a track record, right? Maybe you can give some tips on just how the flow of that conversation or anything that you've learned?

[0:11:28.7] LD: Yeah, I mean, I would say it's not a bad thing to ask for money when you're making someone a massive return, when you're giving out like a nine to 10% interest rate on a six-month loan term, that's huge for someone that's just having that money sitting in a bank account.

First, I think it's like showing value, how can you bring value? What are you doing in your day to day business to be able to create these massive returns, right? Never being afraid to go out and seek the highest and best use for any property. I think just really being upfront with them and saying hey, this is either a new asset class for me or I've done this 10 times before. Here's why I can prove to you that this is a safe bet. I think just again, going back to communicating with them, going back to being able to be transparent and showing them your numbers and financials, that's like a big deal.

We also take project photos off my projects every week to share with our investors. I think just seeing – Sometimes you get stuck in the permitting process and the cities over here, the permitting departments in my city especially are extremely inundated and just that one permit can take about eight months to come through. So just being open with them and saying, "Hey, here is the situation. I am doing everything in my power to make sure that this is going to work and work out fast."

This is just the reality, so I think as long as you can be honest and upfront then that's what's going to get you in other people's confidence.

[0:13:09.8] WS: How have you learned to structure these deals? So many different types of deals and whether you're providing an interest rate or whether you're JV-ing with someone, how did you learn to do that?

[0:13:18.7] LD: When I first started there was a lot of people that were raising money from me and I learned to see how they did it and how they did it successfully. And then I always, always have my attorney review any docs. The few times that I have been in trouble for a contract that was written up was when I didn't get it reviewed by an attorney. So, you know that's just the big deal for me. I always have an attorney drop a JV document especially if you are doing equity

structure that's so muddy. Everything needs to be black and white; I think that is the best way to do it.

[0:13:57.0] WS: Can you tell us about a recent deal where you've been creative or had a creative exit?

[0:14:01.3] LD: Yeah, so I've had a couple of deals. So, one is where I took a single-family fix and flip that the house is on a super large lot. I was able to subdivide the lot into three parcels and now I have two empty lots and a single-family house and that just became a \$2 million project. So that was one way.

The most recent one that I did was I took a 3,400 square foot house that already had two kitchens and six bedrooms and then I added onto it an addition, a 1,200 square foot addition, creating 10 bedrooms and six bathrooms and now I'm either A, I have multiple exit strategies on this house. I am going to either rent it to an adult family home provider for a five, 10-year lease term or I am going to rent it by room to increase their rent rates significantly.

My area in Seattle, anyone can tell you this, any kind of investment deal is a struggle. So, when you get something, I just think making the most of it is the most important. So, I try and find the best exit strategy in any of these deals. That is, I think one of my biggest I would say successes is finding these little nuggets and then doing something with them that nobody else is thinking of doing.

[0:15:23.5] WS: I think that is a great skillset to have and not everybody can do that. What is some maybe things recently in your business as you have grown, as you've been doing this for a few years, some things you have experienced that's caused you to grow whether it's been personally or in your business, some difficulties maybe you've had that's pushed you to the next level?

[0:15:38.5] LD: So, this business has so many ups and downs, right? No day is slam dunk because just around the corner, there is a little fire waiting to explode. What I've learned is just growing my network has been a huge deal for me. Just going out into my network and saying, "Hey, I have this problem. What is the best way to fix it? Who can you introduce me to in your

network that can help me solve this issue?" And I think just having that network not being afraid to call 15 people to get one answer that's been a huge deal for me.

I think you can relate that to any kind of business whether you are a syndicating on a large multifamily or you are doing a small single-family rental, I think if you know who to call or find ways to call the right person then your problems are suddenly not such a big deal. I think just staying in tune in what is happening in our society that's been huge. Really, we have all seen what's happened this year and being able to quickly adapt to be able to move forward that's a big deal. So just be open to I think opportunity and change and being nimble that's a big deal for me.

[0:16:52.6] WS: You have to be ready to change, right?

[0:16:54.7] LD: Have to.

[0:16:56.3] WS: It is not easy. It is not easy to change and especially if you get set in your ways. I was reading the book just this past weekend and it talked about if you are not ready to change, you are not ready to grow.

[0:17:06.3] LD: Oh my god, that's so true right? And this year especially, we should all learn from it. Never know what can happen to the world. It is so out of your hands. It is not in your control and so if you can be quick to adapt then you are going to be more successful than 98% of the people around you.

[0:17:25.9] WS: How are you prepared for a potential downturn or even a downturn like we've experienced now or what prepared you for that?

[0:17:33.5] LD: I have a very good pulse on the market and the minute I got wind of this and really it even started back in February before anyone even thought about it. I was like, "Okay, I am going to change my strategy from going from short term deals to long term deals" and so I just started to buy larger deals where there was a huge profit spread but also there is just a lot to do with it. It would either mean adding square footage or it would mean stripping the building down to the studs.

And then remodeling it in a year but renting it out for a year so that I am losing on my rental income. So just taking on different kinds of projects than I normally do has helped me be more successful. Also, I think being liquid is important in this market at this time because we never know like what the fall market is going to bring us, you know and with all the garment funding stopping, I don't know. I just feel like there is going to be shift. I can feel it, I can see it.

So just being liquid so you can take on opportunities that maybe other people can't I think will lead you to success.

[0:18:45.1] WS: For sure. Great advice. What's a way you've recently improved your business that we could apply to ours?

[0:18:50.3] LD: For me, just having that little shift in the way that I do business. Like I am just going under contract on another four unit, which is super distressed and what I want to do to it is like I can buy it really cheap. You know negotiating deals because you make money on the deal when you buy it not when you sell it, not when you are remodeling it. It is all about the buy. So I have started to really hone in on my buying criteria, adjusting that with the market.

And so, I am buying this fourplex that is you know, I am buying for below market that I know if something happened to the market I'd still be okay. So, I think just adjusting your buying criteria a little bit that would help.

[0:19:35.8] WS: What is your best source for meeting new investors?

[0:19:38.6] LD: So, I host a monthly meet-up and I bring in aspiring investors. I bring in really seasoned investors together and that has honestly been the best way to grow my own network. I also go on a lot of other people's webinars and the cool thing about this whole COVID situation if there is one silver lining it's that everybody has learned to use telecommunication to the best of their ability. I would not have the time before to watch a podcast or to release it down and have like a meaningful conversation with people because I was always on the road going from one project to another.

And today, I can do that. I can do that from the comfort of my home and so I have been able to just grow my network. I attend meet-ups that are based out of New York or Chicago and I would never do that before and I learned to grow my presence and also learned to network with people from across the country rather than just being in my Seattle or Washington State bubble.

[0:20:44.6] WS: No doubt about it. Now that we can join all of these meet-ups virtually we can be anywhere, right? You don't just have to go to the Seattle meet-ups. So great breakout of that mindset as well to grow our network. So what's been the number one thing that's contributed to your success?

[0:20:59.0] LD: You know as cliché as this may sound, I think it is just grit. Having my eye on the ultimate price and the outcome and just doing everything in my power to get to that outcome. Most people I think give up, cut their losses short, which is not a bad thing but at some point, you just have to draw the line and just make sure that everything you do leads to a massive success and it is okay to have fears as long as you can learn from them and grow.

Like I said, my first deal was such a failure and it is not that I haven't had failures after that. Deal number 35, I lot 65 grand on. I thought that was a slum bunk deal and if that could happen to me, it could happen to anybody. Learning from that and growing, you can't bet on a success every time but you can work towards it and I think that's what I do best is have the grit to hustle and get things done.

[0:21:53.8] WS: How do you like to give back?

[0:21:54.9] LD: So, I am big on education and I believe in giving hope to people that are just starting out and so that's why I host my monthly meet-up group, Real Estate at Work. Now I have been doing online webinars. So, people from across the world can join us. Really I have some amazing successful speakers that come on the show and they make the whole process seem so simple that an aspiring investor can hopefully take that and run with it because it only takes on match to light the fire and I just believe in providing that platform where people can network and really grow their own business.

[0:22:34.1] WS: That's awesome. I am grateful for your time. It's been great to meet you and to have you on the show. We just need to hear someone that can be very creative with exit strategies and think outside the box. I think it makes a lot of successful entrepreneurs when they can do that. So just grateful for your time. Tell the listeners how they can get in touch with you and learn more about you?

[0:22:52.0] LD: Yes, so I am LinkedIn. You can find me just by my first and last name, Leka Devatha. I am also on Instagram same, Leka Devatha. Find me, connect with me and hopefully, we can all work on this together and grow.

[0:23:09.5] WS: Awesome, that's a wrap, Leka. Thank you very much.

[0:23:12.4] LD: Thank you. That was awesome.

[END OF INTERVIEW]

[0:23:14.2] 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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