EPISODE 714

[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 Matt Picheny, thanks for being on the show Matt.

[0:00:32.7] MP: Thanks Whitney, it's a pleasure to be here.

[0:00:34.4] WS: Matt is a managing partner at MJP property group, a real estate investment company with over 15 years of experience, he has invested over 5,000 units and is primarily focused on acquiring and repositioning multi-family communities.

Matt, pleasure to meet you, pleasure to have you on the show, thank you again for your time, give us a little more about your background in real estate and I know, a lot of our focus today is going to talk about your journey because I know you've made the path or the journey that that I think a lot of the listeners are – numerous listeners are contemplating as well.

I think they're going to relate to you and your story but let's go back to – how you got into real estate and why multi-family, why investing and syndications?

[0:01:16.3] MP: Yeah, sure. Well, if we go way back, I grew up in Florida and I moved to New York City, to pursue a career in theater which is kind of an interesting background for someone who is involved in real estate. But I did that professionally for about five years, I was an actor doing shows all over the country and then I went from and sort of segued into digital marketing, the digital marketing world and worked in corporate America climbing up the corporate ladder for about 18 years in New York, working at different advertising agencies. During that time, I started tinkering around a little bit in real estate first with a purchase for my own primary residence and then expanded from there.

I ended up purchasing some land, a vacant lot in Connecticut and then eventually I built a house there and then that house ended up, the intention was that it was going to be vacation home for myself and the cost were a little high so I thought that I could rephrase some of those cost that leads in the beginning with doing some rentals.

What ended up happening with the property very shortly after it was done being built was, it became a full-time rental property. That taught me a lot and really kind of put me into a position where I really started to understand real estate, really started to understand the rental market. At that point, I started to diversify into some other things I got involved in some single-family homes, some fix and flips. And then, there was a move, my family moved from New York to Miami when my wife, got a really cool job opportunity and it's too good to pass up and that was the time that I left corporate America and we moved to Miami and while we were in Miami, I was doing these single-family properties, I was trying to figure out how do I scale this business?

For me, and then there are people who can scale a fix and flip business or single-family business but for me, what I was looking at what my goals were and the lifestyle that I wanted to have. I found that multi-family was a much better way to go. I – that's when I transitioned into doing multi-family and that's when I transitioned into doing real estate full-time was upon that move to Miami which was about five years ago. We were in Miami for two years, we're in Boston, Massachusetts now, we've been here about three.

Once again, my wife completely out of the blue got recruited for another job up here which is why we moved here. We do love the northeast and I'm doing this full-time now and I started off — I always have an intention to be active because I have the experience being active, whether it was in the building of the vacation home or the single families in the fix and flips. I was never the guy doing national construction with the hammer in it now but I was definitely very involved and very active in this projects.

But, when I first started getting involved in multi-family, especially while looking for those first deals, what I did was I started investing passively in a number of deals an the main reason for that was because I learned a lot from watching those other owner operators and seeing how they're operating the properties so I got a lot of experience, sort of through osmosis as being an investor.

Plus, I got the cashflow from those deals when the deals performed well. That's been a great thing and I've also been started investing as – well, started working as a syndicator as a sponsor on a number of deals and so I have a bunch of doors that I am now a syndicator on you know, you mentioned earlier, I have over 5,000 doors that I've invested in. Just to be really clear about that, only about 20% of those deals are deals that I'm decision-maker, principle, you know, on that deal. The other ones are completely passive investments.

[0:05:20.2] WS: Getting started in syndication though, you know, was that something that at first you were like, wait a minute, I've heard this from other operators or other investors at first too, especially if they have operated some property, they want to be active, it's like wait a minute. I'm not going to invest in some other real estate deal. If I don't have any control over the deal. You know, was that really your thought process in the beginning and that had to change or did you just understand the business model from the beginning and know that was the way you needed to go?

[0:05:46.1] MP: It's sort of two-fold for me, right? One hand, at that time, I don't know what I would have done if I had control. Because, I didn't really know what I was doing, I knew how to do the single-family thing, right? But I didn't know how to do a larger multi-family syndication so part of it was learning, I was going to people and investing with people that have a track record, that have been doing this and I'm sure you heard this Whitney and maybe people have said this and any listeners have probably heard this a lot. People that you know that you like and that you trust, right?

It's all people that I had gotten to know, not some random person that I met at a random meet-up or heard on a podcast once but people I was able to sort of build a relationship with, get to know over time, before I handed over a lot of my hard earned cash to invest in one of these deals and they also had a track record of being able to perform really well. I knew that they knew what they were doing. So I had confidence in them and I also knew that I would learn a lot from listening to them while I was continuing to learn, joined a mentorship group and did education and all these other things all at the same time that I was doing these passive investments.

That's kind of from one perspective from the other perspective, you know, when we move to Miami, I was fortunate enough to be in a position where my wife had a really good job and I had saved a lot of money working 18 years in the corporate world in Manhattan. And I had also invested in a number of real estate deals and also, my wife is involved in my theater, so we had invested in some theatrical, Broadway shows that were doing extremely well at the time. We had a good amount of passive cashflow that was coming in. And so for me, it was about, how do I amplify that cashflow? For me, it wasn't about, well, I need to control a deal or I need to –

[0:07:46.8] WS: Was that all from your passive investments?

[0:07:49.7] MP: I had a number of passive investments and cashflow coming in from that. It was not enough for me and my wife, for our whole family to liver off of just those passive investments. I mean, maybe we could eked it out but also, some of them especially we were involved in a Broadway show that was doing really well and it's continued to do really well but you know that at a certain period of time, who can really predict that, it will start to decline.

We didn't want to count only on that and we had other sources, right, of passive income and so my idea was how do I go ahead and how do I grow that passive income and diversify it into different things, real estate and not only real estate but real estate int different markets, right? Am I going to put everything in Dallas or do I want things in Atlanta and Florida and Ohio or Kansas, Missouri, whatever, all these different states, all these different places, different markets, because if one market's doing well, another might be doing poorly so I wanted to kind of diversify the real estate.

And, diversify it across different operators. That's what I did so my goal wasn't well, I want to start syndicating deals so then I'm getting syndication fees which are, I do take on deals that I'm a syndicator on, I put a lot of hard work into it as you know, Whitney. These are the gate deals too. I mean, it's a lot of work that's involved in this. You do get compensated for me, it wasn't about building that up, it was about building the passive income up and that's what I've been able to do such that a I don't syndicated deal for a year or two and it's not a problem for me financially. I can really make sure that I'm waiting and choosing to get involved in deals that I think are really good deals.

[0:09:39.7] WS: Nice. Why don't you or speak to some of these success tips that you would have for the passive investor that's listening right now that really wants to be an active operator down the road. Some things that you did or maybe things you learned, maybe things you see now that you shouldn't have done, however. That you wish you had known back then, knowing that your immediate goal, eventual goal is to become an active operator.

[0:10:02.3] MP: Yeah, for me, I think that it's all about relationships, it's a big relationship business, okay? Now, if you're looking at, I can talk about that from the passive perspective and then getting into the active perspective as well. From a passive perspective, you know, a lot of these deals that are being done are done with the 506(b) compliance. What that requires of the syndicator is that the syndicator has this preexisting substantive relationship with the passive investor.

You as a passive investor, building those relationships, getting to know and meet different people, different syndicators and developing that relationship is great. I recently just did a deal and you know, one of my investors that I've known for a little while was like hey, you know, my friend wants to get involved, can they invest in a deal and actually, the deal's already under contract, you can't do that but why don't you introduce me to that person which he since has and have conversations with her, I gotten to know her, understand her and she knows me, she understand me. Now, the next time I have a deal, she can invest in it.

Building relationships just with other sponsors, I think is really important from a passive investor perspective, so that you can number one be eligible to invest in their deal sand number two, you can get to know them better, who is that sponsor, you know, you're putting a lot of trust in them as a passive investor and you want to make sure that that person's going to be a good steward of your capital. That's really important.

And then as we move into talking about relationships for an active person, someone who wants to syndicate deals is about developing the relationships with the passive investors because you will be raising capital probably for these deals unless you're independently wealthy. But also, how do you get those deals, right? They're sort of two ways. One way is through developing relationships with the brokers and the property managers. That's the route that I've taken. I pick certain markets that I might be interested in for one reason or another and then I go into that market and it usually takes a couple of years to go in, establish myself in the market, get to know all the brokers, you know, there's principles, the 80/20 rule which is basically – this applies to many different things, I was first exposed to it.

I'm a project manager by trade when I work in advertising for 18 years, I was a PMI certified project manager and part of that certification process you learn many things and Pareto's principles is one of the things that we were taught. It doesn't just work for real estate but the 80/20 rule, it's basically 80% of the deals in a market will be done by 20% of the brokers. There's really only a few of the real estate agents or brokers that you need to get to know. But yeah, it's good to know all of them but most of the deals, you're going to be done by a small amount of them. You need to develop those relationships with the brokers and also with the property managers.

The first deal that I ever got as a syndicator was because of my relationship with a property manager and they were people that I had met in the market, I had been working with them and I had been looking at a number of real estate deals. When I got to the point where I was ready to make an offer, I wanted to review it with the project management company and during one of those conversations, they said, "By the way, one of our clients that we have, we know is looking to bring a property to sell, bring it to market. Would you like us to introduce you to that broker?" I said yes, and it was really good because that broker was not one of the 20 that does 80% of the deals.This was a very small independent broker who doesn't do a hack of a lot of volume in that area.

I never would have met the person. I met the person I ended up with a deal that's a whole other story but that just talks about building those relationships, that's really important. That's the one way. The other way is through developing relationships with other sponsors, right? Whitney, you and I have started to get to know each other, we're actually in a big mastermind group together.

Maybe one day, I'll have a very interesting deal that I like that might be a little too big for me to do on my own, right? A 400 unit deal and there's just so many different moving parts and I don't have a full staff of people working for me, so maybe I need to leverage you, Whitney, and your experience and your team and we can partner together and therefore, take down the deal together.

That's another thing about developing relationships but it all comes down to passive, active whatever the situation is, it's a relationships business, that's I think the most – you know, if there's one key takeaway from this podcast, I would hope that that would really sink in for people.

[0:15:03.3] WS: Definitely a relationship business. Can't stress that enough, no doubt about it. Matt, you know, that first deal when you became an active operator, was that partnering with another operator that you had invested with passively before?

[0:15:18.3] MP: Yeah, that's great Whitney and you're actually bring out a little thing that I failed to mention about the partnering with other syndicators. And so this person that I brought on, I am trying to think about it because I have invested in deals that he's a sponsor on but I don't think I had yet at the time, but this person I met through a mentorship group that I was in and this person had done, I think, about 10 syndications and like three – I think about four of them having gone full cycle.

So this is someone who is very experienced who really knew what they were doing. I had been talking with them. I've known this person for about two years and I had been looking at deals and reviewing deals with him for quite some time. So we were very synced up with one another. We actually had a couple of letters of intent that we had submitted and made a couple best and final rounds and some other deals both in the Kansas City market, which is where this was or also in Florida. We have looked at some deals and got in the best and final there as well.

And so we had developed a great relationship and I had KP-ed on a previous deal that's a key principle — you've probably talked about it on your show before but just for those who maybe have not heard, if you get an agency debt like Fannie or Freddie debt, you can sign on as a key principle and that sort of gives you some credibility, to be able to get one in the future. It is hard to get one if you haven't already done one in the past. So that is why a lot of people will be a key principle on a deal signing as a guarantor on that loan.

It is non-recourse loan but there is a bad boy carve out where it could become recourse if there is any sort of fraudulent activity that happens. So you are putting your name on the line signing as a guarantor. I had already done that once before so I had a little bit of credibility but my partner having done that many, many times that allowed us to definitely get that agency debt and also he has a track record, which was great. I have a number of people that were interested in investing in my deal.

They knew me, they knew I have been involved in real estate from part-time perspective for about 10 years and then full-time for two years. They knew who I was, I had done business with — they were either friends or business colleagues. So I think they have a lot of trust in me but just having a co-pilot on board, you'll have a ton of experience really just kind of – if they were on the fence to kind of tipped them over the edge of the fence and let them have the confidence in the deal. And so that was key. I don't know if I would have been able to do that first deal without him as being my partner in the deal. And we have subsequently done a number of deals together. We have a great relationship and it has been a wonderful partnership.

[0:18:01.8] WS: Nice. Matt what's been the hardest part of this syndication journey for you? I know you had a large passive role and moved into the active side and now doing your own deals. So what's been the hardest part of this whole process?

[0:18:15.0] MP: Yeah, I mean the biggest challenge and I've had this since the beginning and once I started wanting to syndicate a deal is finding good deals. They are hard to find and I've been involved in looking to syndicate deals for close to five years at this point and this has been an amazing five years for real estate and the previous five years before that. So asset prices have gone way, way, way up and the cap rates are very, very, very compressed, okay?

And that's something I had known and that I couldn't concern about since the beginning looking to syndicated deal because I am bringing in my own money number one but also other people's money. I don't want to put into a bad deal. And so I've been extremely conservative with my underwriting since day one, which is why I don't – I am not one of those guys who does 10 deals a year. I do one or two deals a year because of that. It is just hard to find good deals now, coming out of this whole COVID crisis we'll see what happens, maybe multi-family calms down. I don't necessarily think that is going to happen or they are going to ask is something performing well. It looks like interest rates are going to stay low for a long time. Cap rates generally not in lock step but generally tend to follow directionally the same thing as interest rates. So cap rates will probably remain compressed but who knows.

It is challenging to find good deals when there is so many people who want to be in this space, because of the performance of the space. It is a great asset to be in but it is just hard to find good quality deals and from a passive perspective, I also found that I am a little weary about some of these underwriting especially now that are more as a syndicator and I can dig under the hood and see things like, "Oh, gosh that rent growth looks aggressive or that exit cap rate rather looks aggressive."

And so I think a lot of passive investors who don't know to look under the hood those things need to make sure that they are getting educated to do that, which is kind of impetus for a book that I am writing or I am writing a book and I find that really the best way to teach these exactly is to tell my story. I am telling the story of my entire journey but through that journey, I am imparting hopefully nuggets of wisdom that passive investors and also active investors will be able to take the little concepts. I am not looking to be a big educator or a guru in multi-family but just some little nuggets of wisdom that I have learned along the way that will hopefully help them make a lot of money.

[0:20:52.0] WS: So as either passive or I'll say as an active operator now, how are you prepared or preparing for a downturn?

[0:21:01.3] MP: Well, I am selling some of my properties. I think that it is difficult to time the market, right? Trying to time the stock market, I think, a lot of people understand that, real estate moves a little slower but again, it is really hard to time the market. I mean five years ago, it looked like asset prices were really, really high. So why you're going to buy real estate five years ago but if you did buy it five years ago you are doing really well now because it has gone up.

I wrote this in the book, I am about halfway through but I wrote this, I said that real estate cycles will happen. The markets will always go up and they will always go down. Now the variables are how far up or how far down they go and for how long. Predicting those variables even the best and the brightest get wrong. So I think anyone who could tell you for certain what's going to happen in the future is probably someone you don't want to invest with.

You want someone who is going to look at it from many different angles if this happens here is what we do. If that's what happens, here is what we do. So on our properties, we have certain metrics that we are looking to hit and we've hit those metrics in a couple of our properties so they are for sale. One of them is in contract, one of them is being looked at and we'll see where things go. They've been conservatively underwritten and we've had a few good years behind us. Such as they are very nice cash flowing assets.

So if we do have to hold them through a downturn, I think we'll be fine. I am certain we'll be fine. I can't imagine — it would have to be like catastrophic for us to have a problem because of the conservative underwriting and then the growth that we've had for the past couple of years. Now I just syndicated a deal that we just closed on last month and that deal we underwrote unbelievably conservatively, and I think because of that we had an unbelievable response of people walking in.

[0:22:56.0] WS: Can you just give us a couple of quick things that makes it conservative? We hear that term all the time, right? But people say, "Okay, well what does that look like?" give us just a couple of things that made it ultra-conservative.

[0:23:06.4] MP: 100% I'd be happy to share that and because of that conservative underwriting I think we're going to be fine. So one of the things that we did was we looked at our overall income, okay? So we looked at how the property has been performing. You know there is two things, there is the T12 and the T3 that people look at, for those who are not sure, T12 means the trailing 12 months of operation. T3 is the trailing three months of operation.

So we looked at the T3. We didn't want to look at the T12 because that was even back pre-COVID but the T3 was during COVID. So how has this property been performing during COVID, okay? And we looked at what that income was and then we said, "Okay, for the next year after we buy the property we are going to underwrite that our income is flat, that our income is not going to go —" Now most deals, they reject an increase in income and we hugely project an increase in income.

Because we are going to be doing things on the property. We are going to be renovating units, we are going to be fixing different maintenance, improving the curb appeal. Also, there is a lot like on this property, the washers and dryers were being leased and we are actually going to be purchasing them. So there is instant increase of income that we have already starting on day one that we have been able to already create but we underwrote it such that we so that we didn't.

Another thing that we did is we are looking to sell the property in about five to six years. We looked at where our purchase cap rate was, which is right around what the purchase cap rates are in that market and we increased it on our exit by 2.05%. So the way that that works, you know you have your NOI, your net operating income. So all of your income minus your expenses, that is your NOI and you divide that by the cap rate and that gives you your value of your property.

That is the way all investor do it. That is a way I have learned it from my mentor and then I got certificates at Boston University that's having to teach it there. They teach it that way at MIT. That's the way it's done and so if your cap rate goes up, it actually means your value is going down because you are dividing the NOI by the cap rate, right? That means your value goes down. There is an inverse relationship.

So what we've been doing, I've been underwriting my deals usually between a 1, 1.5% increase on the cap rate knowing that cap rates are compressed right now but on this deal to be super conservative, we did a 2.05 increase on that exit cap rate and then moving forward, year two, year three, year four, we have very conservative rank role projections and income projections that are just small compared to what's been happening in that market in particular, and in that North Dallas sub-market and that's why it is conservatively underwritten, because of all of those different things that we've done.

[0:25:57.4] WS: Yeah, no, I appreciate you explaining that a little bit. We hear that term conservative often, right? Or we underwrite conservatively and I'm like, "Okay, well what does that mean exactly because everybody says that?" So thanks Matt for going into that but just a few final questions quickly because we are about out of time. But what's a way that you have recently improved your business that we could apply to ours.

[0:26:16.8] MP: Oh that's a good question. A way that I recently improved, I think utilizing technology can be really powerful. You know we just started using some project management software from an asset management perspective. And that's been really helpful and I think using too, I have some simple business tools that I use. I use Calendly for meeting invites. I used to have to go back and forth a million times to set up a meeting. "Are you available at Wednesday at 10? No? What about 11?" "I can't do 11."

With this you just click on it, you pick the thing. So utilizing all of these great technology that is out there I think it just helps save you a lot of time and so that's one of the things that I have been doing and the other thing I have been doing is writing and I am starting to write a lot, which I never was a big writer but that's been a real fun challenge for me.

[0:27:03.9] WS: What's your best source for meeting new investors right now?

[0:27:06.4] MP: Oh through being on people's podcast like yours Whitney.

[0:27:12.4] WS: Good, what's the number one thing that's contributed to your success?

[0:27:15.7] MP: Persistence. I am a very, very persistent person. You know that first deal I was talking about? We could have a whole podcast about the intricacies of that but I wrestled that deal down to the ground. So that was pure persistence.

[0:27:30.6] WS: How do you like to give back?

[0:27:32.1] MP: Oh so there's two ways. One is I like helping people, especially if it is sort of housing sector related and being that I am based in Boston something local. So I am a member of the Young Leaders Committee for [inaudible] Communities, which is a local charity organization here in Boston that actually helps people, homeless people with providing them with a permanent. It is not like a homeless shelter. It is an actual permanent place to live and helps them get jobs and training.

And really sort of get back on track, which is just phenomenal. It helps a lot of veterans. It also helps people who have been in an abusive relationships and people who had substance abuse issues and a myriad of different problems and so it's a phenomenal group. So I do that and then in terms of the real estate community, I love helping people especially passive investors, people who are new to the business and kind of want to bounce ideas off of someone or get somebody to talk to someone who has a little bit of experience. So I love chatting with people about real estate, it is my favorite thing to talk about.

[0:28:28.9] WS: Cool. Matt, great show. Thanks for just highlighting your experience from passive to active. You know, I talk to investors often who are striving to do that. You know they see being an active operator maybe after they retire or either just in a few years because they want to leave that corporate ladder and so thanks for sharing your story and I hope people will look you up and find your book that's coming out too. It is going to highlight that story, I think they will learn a lot from that. Any other way that people can get in touch with you and learn more about you?

[0:28:59.7] MP: Yeah, I mean the best thing to do is to go to my website and that is mjppg.com. There is a contact page on there and also a link to my email and my email is matt@mjppg.com. So you could email me or just shoot me a thing from the website. But I love chatting with people whether you have never done real estate before or you've got a million doors, like I said, it is all about relationships and I love cultivating those.

[END OF INTERVIEW]

[0:29:28.0] 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.

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 are 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]

[0:30:08.8] 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 for free material and videos to further your success.

[END]

