EPISODE 785

[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]

[0:00:24.3] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Darin Davis. Thanks for being on the show Darin.

[0:00:32.7] DD: Good morning, top of the morning, everybody.

[0:00:35.1] WS: Over the past 19 years, Darin has been involved in several aspects of commercial real estate to include land development, retail centers, spec homes, storage units, and of course, multifamily. After many lessons learned from his personal experience, he and his business partner, Dr. Tom Burns, co-founded Presario Ventures, a private equity investment group. Their first ground up development was a 240-unit apartment complex in Austin, which was completed in 2011.

In his words, "The hook had been set and we were off and going." Darin, thank you again for your time. I know you and I met at a mastermind, I think, probably a year ago. And so, we talked about having you on the show. I'm grateful that we're finally making it happen. But I just want to hear more about your story and want to dive into development a little bit, and why that is your choice, for your portfolio, and maybe why it should be for others as well. But give us a little more about who you are and what you all are doing, how you got there.

[0:01:32.7] DD: Well, first of all, thank you for having me on the show. I appreciate the opportunity.

I'll tell you how we got started. My business partner, Tom Burns, and I met back in 2001. And of all places, we met at a real estate conference like more of a Mastermind concept. And at the time, we had just like minds, we were investors at the time. He's a practicing surgeon, I had another line of business that I was working at, in fact, I was just coming out of the IT world and software sale, but I knew there was something I wanted to do different. And real estate was calling me somehow, some way, some form, some fashion. Going into that kind of intro that you talked about, I didn't really know where I was going, the land development, the spec homes, the retail centers, but in each one of those stages, I learned something new and I learned what I liked, and I didn't like.

So, as we progressed through the first eight or nine years, Tom and I just kind of investing together, we bought a piece of land and I'll explain that story a little bit later why you should never buy the land before you get all the entitlements. That's a big faux pas in development. But we bought that land in 2008, 2009, and for any of you guys that are old enough to remember what happened in 2008, 2009, the credit market just collapsed on us.

So, we're looking at this piece of land going, "What do we do?" And we literally had one option. There were not multiple options. And at the time, banks weren't lending, private equity syndications were just shut down. We ended up going to HUD, which was actually doing lending for new development, and there was a big shortage of housing anyway. So, we got into the HUD program, where they insured alone, and they were about the only ones lending at the time. So, we had a piece of dirt, we had one capital source, and we scraped together the equity. And then we started off into development of multifamily. So, it wasn't by design. It was just the nature of the beast. I mean, it came to us and we had to absorb it, we had to take it on. And from there. That's what we've been doing for the last 10 years.

[0:03:36.1] WS: Interesting that there was one path, you had to figure out something, you made it happen and that just changed your whole trajectory, it sounds like, in the real estate business.

[0:03:44.8] DD: I had no idea I'd be in development at all, because we were doing other other types of projects. And Tom has a medical background doing medical offices, but here we are and what happened on that is it the project was so successful, we got great debt on it. Our equity partner said, "This is one of the best investments we've ever had." And once we started getting that feedback and seeing the the product perform and the asset perform after two or three years, then we just said, "You know what, this is something we have to take a serious look at."

And then that kind of pulled us together and we started our company about four years ago, even though we were investing together and doing deals together and syndicating together. We decided to formalize it and kind of build out our team to build our infrastructure.

[0:04:25.6] WS: Nice. Well, let's get into that a little. Maybe you can dive in a little more. I know there's a story two about not buying land before getting the entitlements. Did you cover all that you wanted to tell?

[0:04:35.3] DD: Yeah, if it comes back up later on — I'll share that story.

[0:04:39.7] WS: Okay. Well, why don't you just dive in a little bit on just why development now? I mean, your story getting there is interesting, and now you all have just grown this business in development specifically, but why development? Why should we choose development for our real estate portfolio as well?

[0:04:54.6] DD: Yeah, so I'll tell you probably like most everybody else, we're not a big group. So, we were originally said, "You know what, let's look at acquisition, there's a product array there." But we started looking at the acquisition space in 2013. And I think everybody that's been around that long, there was a tremendous amount of competition. There were syndication groups, private equity groups, institutional money, capital was cheap, money was flowing. So, we found ourselves competing on every single deal with 20 or 30 other people.

And we said, "Look, if we don't like the game, we got to change the rules." So, we changed the rules and said, "Let's look at development." We have experience of doing that we just completed one. We decided, let's see if we can do the development. Now, what we decided to do was not be a developer, so to speak. There are a lot of, I want to say, mid-level, high-quality developers in every region. We're in Texas, we're here in Central Texas, between Dallas, Fort Worth, Austin, San Antonio is kind of our niche area that we stay up on the I-35 corridor. There's a dozen or more really solid mid-level developers. What they're really good at is finding land, entitling land, but what they don't always have access to is capital.

So, we decided to take a niche little plan as we said, "Okay, let's get exposed to all the lenders in the mid-level developers, and we'll come in and be their capital source for them." So, even though we're in the development space, we're not truly developers. We're the capital that supports the developers and these developers, they don't have typically the capital to just sit on one or two deals and hold, hold, hold. They're wanting to build, stabilize, sell. That's usually about a three-year process. So, they know that if they have a capital source that can come in and do that for them, then that's really the niche little angle that we're following. It's worked out so far, for the last several years.

[0:06:55.6] WS: Nice. Okay, no, that's awesome that you found a niche, you found a way you could be involved in probably many projects, because of the way you structured that and thought through how to come into that industry. And so, are you doing that to say, like a fund to fund model?

[0:07:09.6] DD: Well, we actually do, yes, and no. We can do it that way. We prefer to be more on the GP side of the of the transaction, because we're bringing 6, 8, 10 million dollars of capital and we need to have the right to be in a in a decision-making position. So, really not a fund to fund, we're really coming in directly, we do invest in an asset specific, we don't go into a fund overall, and then place the money there. So all of our investors know exactly to find, I mean, the asset that they're investing into.

[0:07:37.0] WS: Yeah. So, any other reasons why you chose development over other types of investing or other multifamily value ad projects or self-storage, anything like that?

[0:07:49.5] DD: Yeah, so multifamily being where we are in Texas, we have a 20-year demography. I mean, the demographics for the next 20 years are incredibly strong, jobs are strong, cost of living is extremely affordable here. We decided that multifamily was going to be the commercial real estate that we followed. And again, Tom and I, we've done as you saw in the intro there and Tom's done more than I have, he's done a mobile home park and medical office. So, we've had a wide variety of investments that we've done. We just like multifamily, we like to debt on multifamily equity understands multifamily for the most part. And as you know, everybody needs a roof over their head.

But when we looked at it versus acquiring, we were in the sense that we wanted to have more control over the asset and we're real conservative. So, if you look at an acquisition of a 15, or 20-year old asset, and you look at the development of a new asset, we know that we have the right general contractor, we have the right developer, we have the right insurance, the right bonding, we have all that, we know what product we have control over and what's being built. And we can project over a 10-year period our operating costs.

So, to us, that's huge. We don't get any big surprises. My dad always said to me said, “Son, I don't care what it is, just don’t make it be a surprise to me, you got to tell me ahead of time, no surprises.” Being in the experience and the age we are, we're just going, the less surprises we have, the better off that we are. And so, we were able to mitigate most all of our risk on the front end and control that, with contracts, with the general contractor, contracts with the developer, escrow accounts, reserve accounts, bonding and insurance.

And so, we felt we mitigated a tremendous amount of risk on the front end, in not having these unknowns of an acquisition, because we don't know what the operator did before us. It could be a good operator or a bad operator. Was the deferred maintenance so deferred that we're going to find that we have big issues? Can we support everything that we think we have in our upgrade plan with all the unknowns? So, we just ended up saying, “Risk mitigation, we're going to de-risk this project on the front end, we're going to control it.” And that's just where we felt comfortable.

[0:10:06.2] WS: Knowing what you know now, what would you have done different say on your first development deal? Maybe not the one that you talked about earlier or maybe the next one?

[0:10:14.2] DD: Yeah, I will tell you that land story real quick. I will tell anybody this. First of all, I want to tell anybody who's probably listening to your show, I would never step into development as the developer on my first one or two deals, there's a lot to know. And of course, I thought I knew everything on that first one and I barely got out of it. But we got out of it successfully. What we did is I got pressure from the land sellers to buy the land. and the pressure got to me. I bought the land and sure enough the market went sideways. And so, I'm sitting on a piece of dirt that is doing nothing for us, it's generating nothing.

There’s nothing going on. At that time, I would tell people, and this is pretty common with more of sophisticated buyers and sellers. Most land owners know that to get their land under contract at the premium price, they're going to have to go through that process with you for entitlements and getting your loan approved. Now, again, I would not tell anybody here to start off in development. I would say the one thing they absolutely want to do first is fine interview a high-quality developer, regional developer, somebody that is in your local market, and learn with them, make an investment as a limited partner, watch their process, watch how they do their documentation and watch how they work with the general contractor and you'll learn quite a bit.

[0:11:44.6] WS: Some great advice and no doubt about it. Partnering with somebody that's way ahead of you in the beginning is such a crucial step, I think as well. Like having a mentor, right? Darin, how do you prepare for a downturn?

[0:11:58.7] WS: Well, that's a really good question, because we, by our nature, and who we are as individuals in the company, and we're always playing defense. So, we we set up our deals with the defensive strategy in mind, if it never downturns, great. Okay, we did okay. If it goes to the upside, we did even better.

So, a lot of the downturn stuff that we look at, we look at, “Okay, are we in a, in a market with job potential? Job growth?” We follow what we call text department transportation, we follow the bond money for the infrastructure. So, we look at where the roads are going. We look at where the jobs are going. We look at the suburbs. We look at the demographics. So, we try to do a lot of preparation on the front end, but at the end of the day. You just absolutely never know. So, one of the things that we absolutely do, we look at our debt, what's the best debt structure that gives us the most flexibility, and I may have mentioned this earlier, or to you any earlier, but we started off in doing HUD loans.

Now, HUD has a loan product. They have two loan products that we use and their 40-year amortization loans, typically with pretty low rates. So, when you look at amortizing a 40-year loan on a 40-year term, 40-year am, your cash flow, it can be pretty good, compared to a 10-year loan with a little bit higher rate. But we never wanted to get caught with a loan maturing in the third year, fifth year, seventh year, unless we had a clear exit strategy. So, we were building out all of these products, all these assets, so that in the downturn, we have our loan locked in, we did not want interest rate risk.

So, that is one of the biggest, I guess, mitigators for risk that we look at. We don't want to get caught sideways, because if most of you guys know, in 2008, ‘09 and ‘10, there were a lot of 3, 5 and 7-year loans that matured and there was no money to refinance those things. There was no money to buy those things. And those things were trading 50 cents on the dollar. So, that’s one of the damages, is the debt.

[0:14:14.3] WS: Debt is such an important piece and long-term debt, so crucial, if at all possible, but could you – I know we've talked about on the show before but could you use, but not very often, could you highlight like who's a HUD loan for? Like who can get a HUD loan? Why would we use a HUD loan as opposed to another agency debt?

[0:14:29.2] DD: Yeah. So, the HUD loans are – HUD is the government and the HUD wants to loan money. Well, there's some misconceptions on HUD loans, HUD loan is the market rate loan. A lot of people come up to us, to Tom and I say, “Oh, you all do HUD loans?” We said, “Well, yeah.” “Oh, do you do section eight? Do you do affordable housing?” We go like, “Well, no.” And their market rate, and they’re kind of like, “Really? Well, how do we do that?” There are lenders all over the nation. You've got regional lenders that will actually walk you through that process, and they will help you put your packages together just like you're going to go see a bank.

Now, it really wouldn't be somebody on the syndication side on their first timer too. But there's a lot of developers out there that use HUD loans and the reason why is that they are 40-year ams. They typically are a little bit lower interest rate. The leverage on them is pretty attractive. I mean, you can get an 82/18, so your equity check is not near as big, because the capital markets today on conventional construction loans, you're seeing a 65/35 on the leverage, because they're wanting more equity in the deal. But, if you look at 82/18, you're not coming in with tremendous amount of equity and developers like that.

Typically, the returns to the investors are a little stronger because of the cash flow in the deal, because you'll get more on the debt side on that, but it's mid-level regional guys, like HUD loans, because they are non-recourse. And HUD really wants to put money out there into the into the secondary markets and they're not big downtown urban guys, kind of like most of us probably aren't, that are on this call, building high rises or mid rises. They're more of the garden style secondary markets, HUD likes market.

[0:16:18.1] WS: Just what do you predict to happen over the next 6 to 12 months in the real estate market?

[0:16:23.0] DD: Okay, good question. Well, I'm going to say this, we're real fortunate here in Texas, okay. We've seen our market stay stable and strong. I kind of thought originally back in March, there will be six-month kind of pandemic issue. I don't believe that anymore. I think it's going to be another 12 to 18 months. We're fortunate that we still have an environment where people want to move here, our business climate is good, the way we run our state, from the economy, the diversification of the state, with technology and energy and medical and I just think we're really, really fortunate. In fact, about half our equity comes from outside of the state, and we kind of get a rite of passage, they go, "Oh, you're in Texas." "Oh, you're in Austin."

So, that that perks every investor here tell us more. I think that, you guys have all heard this, the suburbs are where people are wanting to focus on. We've always focused on the suburbs, and always believed that the suburbs give us the most stability long term. We're seeing that more and more today. There's high demand for suburban land. So, for us in Texas, I think we're lucky. We're fortunate. We're going to continue to capitalize on that. We've got three projects on the I-35 corridor, right now, construction projects, and I couldn't be more pleased with our location, the demographics, the cost, everything that we're doing. So, I think for us the next 12 months or so, look pretty positive.

Again, like I mentioned earlier, we've got good loans on these things so I'm not real concerned that we're going to hit any huge rough roads unless something significant happens to all of us in the market, which I think we're in a better position than most others.

[0:18:10.5] WS: Darin, I believe anyone that's successful in business in general, especially in our industry must have a high level of self-discipline. How did you gain such a level of self-discipline?

[0:18:20.6] DD: Boy, the self-discipline, I tell you what, to me. I love what I do. I got asked just last night, I was at dinner and I had this lady ask me, she goes, “What do you do for work?” And I said, “I don't work.” She's like, “Oh, you’re retired?” I said, “No, I just don't feel like I work.” So, the sort of discipline side of me, I love what I do every day. I feel building wealth, building value, building cash flow, is something that's just empowering, so the more I do it, the better I feel. And it's just human nature to me.

So, when I think about where’s the self-discipline is just part of my my daily life. Loving what you do is one of the most important things ever. By the way, it took me 25 years to figure out what I love to do, but here I am.

[0:19:10.0] WS: I love that answer though, if you love what you're doing, you’re automatically disciplined about it, right?

[0:19:15.8] DD: It just happens.

[0:19:16.6] WS: Is there a daily habit that you have that, that you're disciplined about doing that’s helped you achieve success?

[0:19:22.5] DD: I think the thing that I really look at the most is my why, why do I do this? And we all have this, I mean, you've got got a family, you've got kids, you've got a spouse, I look at my kids, and I always – I grew up with a dad in the military and a school teacher mom. We always struggled. It was always about paying bills. I said to myself in high school and college, I go, “I don't want to be like that.” I love my mom and dad. They had no other options. But I look at I look at what options I have today and it’s my why. I mean, it's easy. It's not even something I have to think about. It's just every day, I've got my family to take care of, I enjoy doing it, and it's just a big part of everything. I think just like you, we all get up and the number one thing we have is our family, always take care of them, how are we going to best do that.

[0:20:17.4] WS: What's a way you've recently improved your business that we could apply to our business also?

[0:20:22.7] DD: Yeah, so it's a good question. With the pandemic, we all kind of said, "What can we do to just improve who we are or what we do and add more value to our investors?" I think at the core of who we are as a company, we have seven hours of work here is what can we do for our investors first, and every time that we have an opportunity to make it better for them, it automatically falls down to us that makes it better for us. So, if we can find a better asset, a better way to improve or minimize their taxes, if we can find anything. We had opportunity zones/ We have a HUD debt. We have all these different tools that we're constantly looking for. And the more that we can do that for investors, the more that we can continue to learn.

I mean, I'm in my mid-50s and I still learn more today than I did in my mid-30s. So, the more we learn, the more we pass it on to our investors, we're constantly doing it. It's just a process of improvement, process improvement, accepting and adapting to change. There's a lot of people who get stuck. We're constantly changing. We're constantly trying new things and it worked for us.

[0:21:32.9] WS: What's your best source for meeting new investors right now?

[0:21:36.3] DD: That's a good one, because that's why we're kind of like this right now. It has always been the relationship and the trust, and the handshake and eyeballing each other. As we know, the world's changed. So, just this past week, in our staff meeting, we all agreed that the world is still going to continue to change. And we've got to figure out some better ways to communicate, and continue to build the relationships and trust with our investors. So, we're making some changes on how we leverage video. We're starting to look at different options on how we communicate with our investors.

So, that's going to be a work in process for the next two to three months. But I think the days, at least short term, the days that we used to do things, the way that I met you, at a conference, we're going to have to find out better way to do it. And we're learning as we go right now, because we're more old school. And we've always been that kind of, like I said, eyeball guys. We want to meet you and shake your hand and we're going to have to figure out different ways to do it and we're learning.

[0:22:35.3] WS: What's the number one thing that's contributed to your success?

[0:22:38.3] DD: I don't like to fail. I fail all the time, but I don't like it. So, I’m always looking to just get better. If I can instill that in my staff that works with us, my kids, anything, that's important to me is to be that role model. So, it's just, how can I get better? Just getting better constantly? I think that's coming from a father that was a marine. Marines don’t like to fail and I mean, from the age –

[0:23:09.2] WS: It's not an option.

[0:23:10.2] DD: Yeah. Whether or not, failure is not an option. So, failure is a learning lesson, get up and let's get going. I just like to have those little successes. I'm not looking for the grand slam, I'm looking for this basis constantly.

[0:23:25.4] WS: And how do you like to give back?

[0:23:28.1] DD: Whitney, if there's one thing that I can do, and I know I'm going to do it, and I'm absolutely going to give my time back to youth. My kids are at the age where they're starting to ask the right questions about education, traditional, and financial education. Tom and I talk about it all the time. I have the resources to do this and we'll probably at this pandemic, everybody kind of slows down a little bit and we kind of get our business, I think, adjusted where I feel comfortable, we can get back on autopilot.

There are people out there doing it but training, educating, teaching youth, about money. I grew up so old school, I grew up in the pension world, I grew up you work for somebody for 50 years and you got a pension, those days are gone. And if I could catch these kids at the age of 13 or

21 and show them the 5, 10, 15 things they could do, you could change some lives of a lot of people, not today, but by the time they're 30, 35, they'll look back and say, “That was probably the best education I ever got.”

[0:24:36.0] WS: No doubt about it. I wish I had received that education at 20 years old. My goodness. So, appreciate you giving back in that way, Darin, and grateful for your time today. I'm glad that I was able to make it happen and have you on the show and just you elaborating on why development, how you kind of accidentally got into the development space and made it happen and just love the way you look at, just being disciplined as well, that you love what you do.

So, you almost don't have to be as disciplined because you're just ready to do it and ready to perform. Tell the listeners how they can get in touch with you and learn more about you.

[0:25:11.5] DD: presarioventures.com. My bio is on there are. My cell number is on there. Email is on there. Please feel free to reach out to me. What I would tell your audience is this, I hear people say development is risky. I've got to tell you, we think it's not risky because we think we're in control. And if people are looking to learn about development, there are so many good developers out there that you can go into.

A syndication as a limited partner and learn and you're really going to be in a good position. I think if you take that first step that way and, Whitney, the demand for housing right now that we can't build it fast enough. Absolutely cannot build it fast enough, so there's going to be a lot of opportunity.

[END OF INTERVIEW]

[0:25:53.6] 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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