EPISODE 802

[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 James Kandasamy. Thanks for being on the show again, James.

[00:00:33] JK: Hey, Whitney, happy to be back on your show.

[00:00:36] WS: Yeah. I'm happy to have you back. James is an expert in this business and it's always a pleasure to have him on the show. In case you haven't heard of him, I would encourage you to go back and listen to a couple other shows. I know he was on show WS27, believe it or not, and WS101. We talked about numerous things, about hidden value in multi-family investments and how to vet a sponsor. I mean, there are lots of things about passive investing. Let me just get into his background a little bit in case you haven't heard of him.

Since establishing Achieve Investment Group, LLC in 2015, James has syndicated nine large apartment complexes, totaling 1,700 units and has grown his portfolio to 130 million plus. His pragmatic skills in solid communication, interpersonal, analytical, and organizational leadership skills as well as his deep rooted background in real estate investment are what makes him unique. With over six years of experience in real estate and more than four years in multifamily acquisitions and asset management, James harnesses his experience to drive to offer clients firsthand, vertically integrated services and multi-family investment finding off-market deals, asset, construction, and property management.

Now, James, thank you again for being on the show. It wasn't in your bio, but I'm going to tell the listeners anyway, he is the author of a great book. It's called *Passive Investing in Commercial Real Estate.* I mean, if you're a passive investor in this business, it's definitely a book to start with. It's definitely a book that's going to help you to make a better or more wise investment in this space.

We're going to talk about numerous things about that during the show today that the passive investor needs to know. James has focused on this and is very knowledgeable about helping the passive investor. So, James, welcome the show. Tell the listeners a little more, or maybe give them an update since the last show, and let's jump in.

[00:02:23] JK: Sure. Absolutely. Absolutely. So, happy to be back. I can't remember. I know you mentioned a few podcast episode, I just did not know when exactly was that. But I believe one of it was like when I recently launched my book, like one and a half year ago. I mean, that book, like it's crazy. I mean, I just can't believe it. I mean, I wrote it because I was passionate about teaching my passive investors that real estate is not a commodity, especially real estate syndication it's not a commodity, right? It's not the same. A lot of it depends on the sponsor. The passive investors need to know how to underwrite deals. At the same time look at different market cycle, look at different capital source, and how can they optimize their passive investments to be very successful for themselves, rather than just going and blindly investing in every single deal out there?

I mean, that's why I wrote the book. And it's like top 15 book by Jim Cramer, *The Street*, which I didn't even know, right? I already sold like two thousand copies, paid copies, not even the one that I give free, right? Once in a while when I go for meetups, sometime I do give for free upfront. So selling that many books – I mean, writing a book is one thing. I mean, you can claim yourself as an author, but whether your book sells or not and people read about it, and we have like 64 5-star reviews right now, and it's just amazing.

So, I'm a deal sponsor or what we call a syndicator. We own like almost 2, 000 units in Central Texas, which is Austin and San Antonio. Yeah, I mean, author of that book, and I have my own podcast, Achieve Wealth Through Value Add Real Estate Investing Podcast. We are vertically integrated. That means we own property management company within our asset management and acquisition arm as well, which gives us a lot of advantage.

I really like to focus a lot on off-market deals, just because I think that's where the biggest bang for the buck, because if you go and buy deals on market through sell bidding, you probably – Is the highest paying guy out there. You probably need to really hope that the price is going to go up from where you buy, because fundamentally you overpaid for that deal, right? On the day you won the bidding process, you fundamentally overpaid.

[00:04:25] WS: What's been the key for you to find or get connected to achieve or finding off market deals?

[00:04:29] JK: Yeah. I think in the beginning it was more like me going direct to sellers, but after I do one or two deals, I got like two deals direct from sellers. Actually three deals to direct from sellers out of my nine deals. A lot of it, brokers start coming to me, but I think the key thing about off market is for you to get started, right? Because it's very hard for a newbie to get started buying a good deal in a good market from a broker directly, right? Because brokers, they have a lot of buyers in front of them. A lot of experienced buyers who they want to maintain relationship, and they don't want to risk their couple of hundred thousand of commission just because of some newbie, they want to help out newbie. Unless they are your family or very close friend and they really want to take that chance, right? So they don't do that. Yeah, brokers, direct access to brokers through off-market deals. At the same time we used to do a lot of direct marketing to sellers when I get started.

[00:05:18] WS: Nice. Well, James, let's jump right into – I know you have learned just some secrets about passive investing, especially after writing the book too, and you're helping lots of investors. Let's help them today as well that are listening. Different things you've learned. Things they need to be thinking about. I know we briefly talked about even just deal structuring and analyzing and IRR and some of those things that, as a passive investor, they need to know to look at.

There can be so many details, it can seem overwhelming as a passive investor. But get us started with some things, secrets, things that you've learned recently, that is really going to benefit that passive investor?

[00:05:54] JK: Sure. Absolutely. Absolutely. I mean, when I wrote the book, I was really focused on introducing the passive investing world to the masses, right? So, it was very basic chapter one, and after that it goes a bit more detail into like chapter three, four, on onwards to up to chapter seven. There're a lot more advanced concepts, which people, an experienced passive investor would really appreciate, but it was still very basic. This is how you want to invest in passive investing.

Writing a proper book takes a lot of time. Takes like one and a half year for me to write that book. I was in this world where I had a group, a circle of people within me and – I mean, first of all, introducing that whatever I know to outside of my circles. At the same time I also realized that within my own mindset, I'm also limited in terms of knowledge what's happening outside in the industry. Because syndication is private, right? Everybody don't talk about it. It's not like you can go and type an article and find the details of investment structures that every sponsor or syndicators are putting in.

After I wrote the book, six months after I wrote the book, I started talking to more people, starting exploring my network a lot more, and I found out there's a lot more things that I should be updating, that I should be educating passive investors. Of course it's a bit more advanced concept and, which I want to share it right now. A lot more things to educate passive investors, especially if they already like started investing, right? Some of the things I'm going to cover right now.

So, one of it is basically how do you analyze a deal? How do – I mean, in the book I think the second chapter I talk about personalizing all investment, right? So, if you are a cash flow person, you want lower rates, you want more high cash flow, you go into a cash flow deal. Whereas if you're a young person who want to multiply your equity and you don't really need the cash flow right now, you go and do a lot more into the deep value-add and value-add deal. So, this is how it is, right?

But I also learned – I mean, I also know that there's a lot more advanced concern on how to put that into numbers, right? So when someone give you a deal, right? Deal A versus deal B and has cash flow every year, cash flow. I said, for example, 10,000, 10,000, 10,000 every year in deal A. And the second deal is like maybe it's 5,000, 5,000, 5,000. In the back end you get a lot more, versus the first deal you get a lot more on the cash flow like 10,000, 10 000 but you get less in the back end. Which one is better? Which one is good for a passive investor?

The concept that I'm going to be talking to you and your listeners is something where we look at an investment. We have overall metrics of any investment. The best way to summarize it is usually IRR, right? When people talk about cash flow, yeah, cash flow is the ultimate goal. But it's ultimate goal for people who are focused a lot on cash flow, right? It may not be focusing a lot on the back end, right?

So, it's very interesting that some people are focusing a lot on the back end, some people are focus on a cash flow but, in the commercial real estate world, the advantage, the Wall Street of commercial real estate, they do give a lot of value for cash flow, because cash flow is more certain. The risks are lower, right? Because you're going to say, "Next year I'm going to pay you this much," versus five years down the road, "I'm going to sell it at this exit cap rate. We may sell it. We don't know." I mean, we put a lot of clauses for the five years down the road, right?

That value on the exit on the on the back end is actually lower value compared to the cash flow, right? But how do you analyze it? Which one do you want? Which one is a better deal? Right? So, the concept that I'm going to talk about is something called risk adjusted return, right? So if there's a lot more cash flow, your risk in that deal is lower. Your return is higher, because you're focused a lot on the cash flow. Whereas if your cash flow is lower and you focus a lot on the back end and your big money is coming on in the back end. So, that is risk is high, return is low, right? Because, I mean, even though you get a lot more money, but still the risk is high, right? The concept of risk is sometimes people don't talk about it. People just talk about flat numbers, right? Which is very, very least sophisticated of looking at investment.

[00:09:54] WS: This is a great topic, because I know recently we've done what's called the dual class structure on a few deals. I know that's becoming more popular. It does give the investor the option to receive a higher, say, preferred return, but none of the upside. But they're getting that in the first month of ownership, while the other class of investors are getting – they're also getting a preferred return, but a somewhat lower preferred return. However, they get to share in the upside. But they have a little more risk. They're higher in the capital stack. Obviously we have our lender. Then you have your class A, then your class B investor. There's a slight bit more risk. However, a lot more potential return.

[00:10:32] JK: Yeah, absolutely. I mean I do the same thing as well. I have two classes where one is flat return and the other one's more on the back end, which is a perfect – I would say, maybe not the right way to use it, perfect. It's one really good way to match which class to what you want kind of thing, right? I mean, some people focus a lot on cash flow. As I said, cash flow is higher value especially if you're paid out first, but you have to give up something on the back end, right? Whereas some people focus more on the back end, whereas less cash flow.

It's a really good structure. I really like it and I'm using it in my syndication as well. But how do you measure that, right? So let's even though let's say you use the cash flow, less cash flow and then more back and upside. How do you measure that? So there's a concept called IRR where you can partition the IRR, right? So you take IRR and you look at all the cash flow and then you basically bring all that cash flow to the present value. So let's say you're getting 10,000 two years down the road. The 10,000 – What is the value today, that 10,000? Because it's always a time value, right? IRR is a time value function.

People can say that I'm going to give you 10,000 two years down the road, but that 10,000 two years down the road, it's actually probably valued at 8,000 today, right? So what we do is we call something called present value. We take all the present value of all the cash flows, right? So, it's a time value of money calculation. It's called discounted cash flow analysis. So, what you do is you take all the cash flow and then put it to today and then you look at what is the total return in cash flow, and you take five year down the road where you're getting a big upside, big on the sales, and then you bring that amount today's value as well and see what is the value of that. You take the final back end numbers, and you take the cash flow numbers that you got for the next five years, assuming you have five-year horizon. So, you get a certain percentage for cash flow in terms of IR and certain percentage of back end sales in terms of IRR.

For example, if a deal is paying you two-thirds of overall return using cash flow, that is a much better deal compared to a deal which is paying two-third on the back end, right? Because as I said, it's a risk function, right? As I said, cash flow is lower risk, higher return. Whereas a back end is higher risk, higher return as well, right?

In that case, you can analyze, where am I getting my money from on this concept in terms of this deal, right? And see whether you like that deal or not, right? So I'm not saying back end return is not a good deal. I mean I do a lot of deep value and value-add. I love to, because you make so much money on the back end. I love the cash flow as well, but you have to just analyze. When you put apple to apple, when you split this IRR into two different numbers on each of this deal, one is a cash flow IRR and one is a back-end upside sales IRR, you're basically able to dissect this deal into two different chunks in terms of risk.

Which one is better risk for you personally? Is it are you a more cash flow person and you think this risk is lower? I mean, the IRR could be same between both of these deals, deal A, deal B. Maybe it could be 15%, 15%, right? But on Deal B, the 15% maybe two-third of that 15% is coming only on the sale, right? Whereas on the deal A, two-third of the 15% is coming on the cash flow.

Now, if you are advanced passive investor, I would say, "Oh, I want lower risk, more certainty in my deal," right? So, I'm going to choose the deal number A, because it's higher cash flow. It's the same return, but lower risk, because I'm a lot more money on my cash flow. It's a very advanced concept that I think every passive investors need to know on how to analyze it. You have to figure that out how that happens on each deal and calculate that using PV functions, right? So, you have Excel spreadsheets and all that that you can use.

That's one concept that I want to make sure that I introduce to all your passive investors, because deals are different and your preference is different. People don't talk about risk, right? People just look at the numbers, "Oh, big numbers I'm going to do it." People say, "Oh, 30% IRR. I'm going to jump on it," right? Whereas they don't talk about what is the risk of me getting 30%? Because, I mean, apartment business runs on a dog years, right? It's really, really slow. Even one year, you feel like, "Oh, I owned like three years." So imagine five years. It's a really, really long time.

You may deplete all your money. Let's say you have one million dollars. Within two years you already depleted all that one million you invested, and you have to wait for another three more years, five years total for all this investment to exit. But if you know a time value of function and risk in all these deals, you are cautiously investing this one million dollar into different, different deals. Does that make sense?

[00:15:11] JK: Nice. Yes. You know, James, I hear often. They're like, “IRR,” and it seems so complicated, right? And it seems like, “Well, how in the world do I calculate something like IRR?” I think you just said it well. I mean, it does account for time, right? Often, I'll tell the investor, “Well, if I told you that I could turn $100 into a million,” well, you're going to be ready to hand me as many hundred dollars as you can give me, right? But if I said it's going to take 300 years, you're not going to be very interested, right? You do need to know how to calculate the length of time or how the time is going to affect the value of your dollar. No, I think that's well said.

[00:15:49] JK: Yeah. Sometimes I’ve seen deals where people say 3X return. Wow! That sounds cool. But 3X in 10 compared to 2X in 5 years. Which one do you want? So 10 years is a long time, and if that's what the goal of your investments are, then it's okay. But you have to know. It's a consideration of risk into the mix and a consideration of time value of money into the risk, right? So yeah, IRR is important. Equity multiple is important, cash on cash, absolutely important, but I think when you partition you know the IRR into two different portion of the investment, that becomes a super sophisticated method for passive investors.

[00:16:30] WS: Nice. All right, James, what's another thing before we run out of time? Give us another secret.

[00:16:36] JK: Sure. Let me give a little bit. I have a lot of concepts. I mean, I’ve recently done a master class where I talk about all this. I call it dark secrets of syndication. Now, it's not really dark secrets. It's like more advanced concept, I would say. The second concept I would say is basically how do you look at your investment returns? Whether all your operational cash flow is return off capital or return on capital or not, right? So any investment, any CD. Let's say you're going to put your money into CD, 100,000 and you get any percentage. When we talk about how much is a CD percentage, you're talking about how much you make on that 100,00 every year kind of thing?

The same thing in investing, when you put a money, or let's say 100,000, every investment that you make should be on top of the 100,000. But there're a lot of deals which is structured as return off capital, right? So your operational cash flow is considered return off capital, right? So which means your money is being returned as capital. I mean, your return – Yeah, whatever money that you're being returned is a capital reduction, right? Which means there's a lot more – You are putting all your risk to the back end, because the only time where a passive investor make money is only at the sale, because throughout the five years operational, let's say five year whole period, you're not making any money because you're just getting back your own money, right? So, you want to really – I mean, any passive investors want to go and check their company agreement and make sure that they'd understand the structure, right? Because it's very subtle and very subtle, and I think passive investors just need to understand that.

This doesn't make any difference in the tax world, right? In commercial real estate investment there're two. Well, one is the investment world and the tax world, right? Sometimes people say, "I return your capital. You don't pay tax." That's not true. All investment, whether cash, whether you're returning profit, or you're retaining your own capital, is always consider return of capital in the tax world. So, that doesn't make any difference.

These are the two things I want to share with your audience and listeners, I mean, on top of other concepts, but I think these are really good concepts to really learn different types of advanced concept in becoming a really, really sophisticated passive investor. Because syndication is becoming more popular, a lot of people are jumping into it. I mean, people, they all they have this FOMO effect, right? Where they don't want a fear of missing out, everybody jumping in. But right now, get educated more. You're investing 50,000 to 100,000 minimum. It's a really good concept to really learn so that you really become really sophisticated in your investing.

[00:19:06] WS: No doubt about it. Those are some great concepts that any passive investor needs to know, James. Even like the return of capital. I get that question sometimes from investors, and I think some just don't know to even ask that question, but I would say ask the question of the operator, but then also look in the PPM, look in the documents, just to ensure that that's the way the deal is structured or so you understand. Are you being bought back out or do you still own that much of the deal until it sells?

But, James, to jump to a few final questions, because I want to get your expert opinion about a few other things, how do you prepare for a potential downturn? So that as the operator or maybe even as the passive investor understands things to know to look at for that operator?

[00:19:47] JK: So, we try to conserve our reserves. That's one main thing that we do. We are vertically integrated, so we can reduce our expenses. A lot of times we reduce our expenses directly from us, I mean, because we have the control of how many staff we can have in any property, right? And at the same time we buy deals at a discount, right? So, if you're buying a deal at discount, I mean, the deal that closing next week, we bought it at 30% off compared to market. I call it the COVID discount. I mean, I know no one is doing COVID discount. We got a forbearance deal, which has a 30% off, which is an awesome deal, right?

When you buy it at a discount, you are really masked off on a lot of fluctuation in the economy, right? When you buy it at a market – like right now a lot of people are buying a market rate deal. I mean we are in a recession, but people are paying pre-recession price. Just because there's so much capital looking for deals right now. You're basically fundamentally overpaying. You are not matching the economic times with the deals that you're doing. During a recession, you buy recession price. During good times, you buy good times price, right? I see a lot of people who are buying deals to sell bidding. They get maybe one or two percent discount. They call it COVID discount. I mean, COVID discount have to have at least 10% discount from what I see, because of the late fee is missing and the reserve requirement from the lender is high and it's just a pretty low appetite, right?

[00:21:14] WS: James, what do you predict to happen in the next 6 to 12 months in the real estate market?

[00:21:20] JK: So next 6 to 12 months, I do predict that people who has been sustaining through COVID is going to let go of their properties at that time, or at least try to sell the properties at that time, right? I think it's important for us to look for that kind of deals. I mean, I don't think apartment deals would be crashing. I don't think multi-family apartment will be crashing, but I think there will be deals out there even though it's only it's going to be ready for people who are really prepared for it. People can raise money, strong operators, people who have certain advantage and they can take advantage of that, the small amount of deal that comes out.

[00:22:03] WS: James, I believe anyone that's successful in this business or in any business really has a high level of self-discipline. How did you gain such a high-level of self-discipline?

[00:22:14] JK: I underwrite as how I want it, right? Basically I try to underwrite to deals where I can see a building upside today, right? So, today when I buy a deal I should have an upside itself. It's just missing my sweat equity and my capital, right? If I buy a deal where I can go and push up the value from today's value, and that's a very strict criteria I follow. I don't buy deals where there's no upside on day one, right? Where I cannot go and do it because I think it's too risky, right? I don't buy deals which is – I mean, I like cash flowing deals, but I just don't want it just to have cash flow. You also need to have that value-add on the back end so that I can get further up compared to the debt service coverage ratio. That's only available on a value-add deal.

[00:23:01] WS: All right. Do you have maybe a daily habit that you're very consistent or disciplined about that's helped you achieve success?

[00:23:09] JK: Daily habit. Well, I used to wake up early morning and meditate and all that, even though I slacked off recently. Not recently, maybe for the past one year. But I think that is one very effective daily habit where early morning, wake up, especially when I was doing my W2 like three years ago. I used to wake up at 4:30 and you do meditate, you visualize, and you focus and you just make sure that you take care of the most important thing early morning before you go to work, right?

I think that was very effective for me. I mean, I went very quickly on my acquisition and on my scale of the business, right? I would recommend that would be the best daily habit. Even though I'm not doing it right now, I mean, as I said, I slacked off a bit. But I think that's one of the most important daily habit I would say that can change someone's life.

[00:24:04] JK: Is there a way you've recently improved your business that we could apply to our business?

[00:24:09] JK: We started using tools like Slack and Asana in our company, which has become really, really powerful, right? Because all the internal communication, all the emails have been reduced. Internal communication has become more, and that are the two tools I would recommend people to check out, Slack and Asana.

[00:24:26] WS: What's your best source for meeting new investors right now?

[00:24:31] JK: Best source, I would say referrals. Yeah. I do have my own Facebook group. I'm pretty well present in social media and all that, but you can't really beat the referral part of it. When a happy investor refer another person, that's how your network grows.

[00:24:51] WS: What's the number one thing that's contributed to your success?

[00:24:55] JK: Persistence and doing things that other people don't want to do, right? So, buying deals, which is not many people can do. At the same time, going direct to sellers. In the beginning when I started, I think if you do things that other people don't want to do, of course, you're going to be better than others. If you're doing like what everyone else is doing, then you will be like normal like other people.

[00:25:17] WS: And how do you like to give back?

[00:25:19] JK: We give a lot for – we have like 330 kids right now in third-world country like Africa, India, and Mexico, where we sponsored the education, right? And we recently created a 501(c) foundation to explode that initiative, I would say. We want to sponsor a lot more kids, and that has been our ultimate life goal. I do not know whether a common syndication is the path that can get us, because our goal is much bigger than what the syndication business can give. So, we are still trying to figure out how do we grow that, but creating a 501(c) foundation gives us that pathway.

[00:26:01] WS: Wow! James, I'm grateful for just your desire to give back in that way and just how generous you are in helping children and giving back, and I'm grateful for today as well. You're just sharing your knowledge and things you've learned. Analyzing IRR is something that so many people struggle with. It's not an easy thing, and I think you laid it out very well just for the investor to think through, just that risk adjusted return. Just how to measure that and think through, "Okay, what deal should I be investing in?" And thinking long term, five years from now, ten years from now, "Am I really making the best or wisest investment for my situation right now?"

So, thank you again. Tell the listeners how they can get in touch with you and learn more about you and even how they can pick up a copy of your book?

[00:26:44] JK: Absolutely. Absolutely. So my email is james@achieveinvestmentgroup.com, james@achieveinvestmentgroup.com. If you want, anyone want to partner with us and come to that website, there's a link called Invest With Us. Fill out the form and you will be in my investor list. You'll get my calendar link. If you want to pick up my book, I've actually recently launched a funnel campaign to get the book for free. It's called passiveinvestinginrealestate.com, passiveinvestinginrealestate.com. Just go to that website. You can pick up the book for free. You pay like $4.95 for shipping. The same book is $20 in amazon. It's still there. So, get that book for free.

Even though how advanced you are in passive investing, read the book and see whether you really know what you're doing. Because a lot of people came up from different channels, right? And some channels – You just have to be aware of different knowledge out there for passive investing. As I said, even if you invest 25,000 or 50,000 to passive investing, that's a lot of money. And picking up a book for free or $4.95 shipping is nothing, right? So yeah, get that book. My website is achieveinvestmentgroup.com. I have my own podcast called Achieve Wealth Through Real Estate Investing. And if you're on Facebook, come to my Facebook group, called Multifamily Investors Group. There's like 7,000 members in it.

[END OF INTERVIEW]

[00:27:59] 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]

[00:28:39] 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]