

EPISODE 826

[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 Ash Patel, thanks for being on the show this morning Ash.

[0:00:32.7] AP: Yes, good morning.

[0:00:33.7] WS: Ash had a 15-year career in I.T. then got hit with the real estate bug. He had a pivotal moment that convinced him to focus on nonresidential commercial properties. He has since invested in retail, restaurants, strip malls, mixed-use, medical, and office. Most of his properties are value-add and typical cash-on-cash returns, far exceed 30%. Ash, thank you for your time being on the show. I'm looking forward to getting into your specialty and the things that you do to make it in the commercial real estate business. Give us a little more about, you know, your focus right now in this business and let's talk about that pivotal moment a little bit as well.

[0:01:12.5] AP: I'll start with the pivotal moment. It was a mixed-use building that I purchased. My very first real estate investment. Typical, I would go down –

[0:01:21.1] WS: Why did you buy it?

[0:01:22.4] AP: Why did I buy it?

[0:01:23.7] WS: What pushed you to say, you know, “I’m going to buy this buy this piece of real estate”.

[0:01:27.9] AP: The funny thing about that was, there was a store, grocery store, beer store, on the first floor that sold groceries to college kids. My mentality at the time, which is silly now was, “If that store lease expires, I can go in there and manage the store”.

Maybe it wasn’t really a real estate play, it was me trying to be a convenience store owner, which is even funnier. I self-managed the building and did all the rehab. I noticed on weekends, holiday parties, I would have to go in unclog sinks, fix drywall holes. I saw the commercial tenant one time replace their entire HVAC system on their dime. That pivotal moment was me seeing residential tenants destroy your place and commercial tenants actually improve it on their dime. From then on, I stuck with mostly commercial real estate.

[0:02:23.5] WS: Nice, okay. 15-year career in IT, were you just looking to get out of that or was it – at this moment, after you had this property, was it like, “Okay, you know what? This could be a much better route.”

[0:02:35.2] AP: Throughout that career, I always had a side hustle. I started a lot of companies in the side and real estate was appealing because I heard there were great tax benefits. Didn’t know what they were — so I was going to dive into real estate but still keep other side hustles going.

Once I got into real estate, I was hit and that whole passive income thing was just phenomenal.

[0:02:59.1] WS: No doubt about that. Let’s dive in now to what your focus is and I guess, share a little bit about what your real estate business right now is doing, what you’re purchasing.

[0:03:09.6] AP: Right now, I will do joint ventures, syndications. But the deals that I do on my own or anything from strip malls, restaurants, warehouses, industrial, medical, office, I’ll look at any piece of commercial real estate, nonresidential, and see if I can make money at it, see if I can turn it around, see if I can add value to it.

Really, I don't have a niche, I'll look at anything. The returns have been phenomenal, much higher than I would have gotten in residential, multi-family, syndications even.

[0:03:43.9] WS: I want to dive into that a little more but first like, you know, all those different asset classes, how have you come in to warehouses and strip malls and mom and pop rentals or your medical centers even — and known how to operate something like that. You know, so many different types of properties.

[0:04:00.2] AP: 100% by the seat of my pants, there was an alarm installer in a building that I purchased who took me aside and maybe he saw that I was young and over my head or whatever it was but he took me aside when I found a tenant for this 12,000 square foot warehouse and he said, "Ash, your only goal in life is to make sure you do everything you can to make sure this tenant succeeds."

That stuck with me. I am more of a partner to my business owners, my tenants than I am a landlord. Every month, sorry, every quarter, I'll host happy hours either at my house or out somewhere and I'll invite all of my commercial tenants to that happy hour. It's a bit of a networking event, we share ideas about marketing or optimizing cashflow.

But then, it becomes a social event. Really, these become my friends, a lot of my tenants are good friends of mine now. I've taken the mentality of partnering with my tenants, versus just being a landlord and I also self-manage to this day, all of my properties so every tenant has my cellphone number, if internet is slow, if snow isn't removed timely, they call me and I want that phone call — so I can make it right.

[0:05:14.4] WS: Nice. Well, what about the location of these properties? I know you have a little different philosophy there than some might and I'd love to hear more about that.

[0:05:22.3] AP: Yeah, I don't like playing in large sand boxes, I'd rather play in smaller niches. I avoid city centers for the most part, I also avoid class-A real estate and the reason for that is, a lot of guys from California, New York have come into the Midwest buying real estate.

Those fully-leased strip malls with the Starbucks, the National Tenants, those are easy for these coastal buyers to buy site unseen, so the cap rates reflect that. I would rather be in the smaller suburban markets outside the city centers where it's a mom-and-pop strip mall, a suburban office building, an industrial area that may not appeal to a lot of people.

I love those smaller niches and the smaller niches are also more difficult to obtain financing for so that again, shrinks the number of people that play in your sandbox.

[0:06:16.6] WS: Is there a specific size of deal that you're looking for or is that pretty much anything?

[0:06:22.7] AP: No, I'll do anything. Hopefully 250 and above, \$250,000 and above, it's often below that, unless the numbers are just ridiculous, it's more of a headache than it's worth. No, it's more the cash-on-cash return that I'm shooting for, versus the size of the deal.

[0:06:40.8] WS: As far as location, are you trying to stay like close to you or is it anywhere in the Midwest or other parts of the country?

[0:06:49.0] AP: Initially, it was trying to stay within driving distance, a short driving distance. But over the years, I've learned to better manage properties without having to be there all the time. Now, I look in about a hundred-mile radius and anything outside of that, I'll do a joint venture. I'm trying to get a lot of other people converted from residential to commercial investors.

When they bring me deals, I'll often joint venture with them. Yeah, I'm wide open as to geography.

[0:07:20.6] WS: Elaborate on that a little bit, as far as managing when they're further away. You've gotten better about management and not having to be right there all the time. What are a couple of things that have helped you to be able to do that?

[0:07:32.1] AP: Getting your tenants to act as landlords almost. If I have a showing in an office building, I've got a couple of tenants who have a master key and they can go in, do the showing,

sell the building, tell everyone how great the other tenants are, little things, when if I have to meet a plumber or an electrician, I can get tenants to do that.

Cleaning up around buildings, pay a tenant or reduce their rent to do that. Again, I think building those relationships with your tenants has allowed me to do that because I don't see most landlords, that are just rent collectors, being able to call a tenant and say "Hey, do you mind cleaning up? I've got a showing. Rake the leaves," right?

That's a tough one but I think it comes down to building those relationships and that's what helped a lot.

[0:08:22.5] WS: No doubt about it, relationships are so important. A lot of times relationships are just thought about on the investor side but not so much on the tenant side, right?

[0:08:32.6] AP: An anecdotal story to that, I sold a strip mall to an investor out of New York and he didn't even give the tenants his phone number. All he gave was a mailing address, a physical mailing address, they had no email account, so literally, if something goes wrong, they're almost forced to deal with things themselves versus calling him because they literally could not call him.

They had a mailing address where they sent rent and he didn't want to hear about anything else. I'm the opposite of that.

[0:09:02.7] WS: That sounds like a recipe for disaster, manage, and separational.

[0:09:06.4] AP: He's actually a very well-known investor and he's killing it.

[0:09:11.8] WS: Well, you know, let's talk about the different asset classes a little bit, it's interesting that you have experienced in all those asset classes and especially over the last year when so much has changed in some of those asset classes. But tell us maybe your favorite asset class and then talk about, has it changed a lot for you over the last year or maybe the type of asset class you're looking for?

[0:09:31.2] AP: The type of asset class, I don't think has changed. My favorite is still those mom-and-pop strip malls. Because the returns historically for me have been highest out of any other asset class. I'm starting to get into industrial, which right now is one of the hottest sectors of the market so it's difficult finding those properties correctly but again, instead of taking down those 50,000 square foot warehouses — take down to 20,000 and increase your returns.

The challenge is right now, obviously, are finding retail tenants. I've got a vacant bank that is not going to get filled until the COVID stuff goes away because bank lobbies aren't even open right now. Trying to convince a bank to come in, expand, grow is almost impossible.

The other difficulty is with retail tenants. When COVID hit, a lot of them, they couldn't open their businesses. Salons were shut down and I think I've got four salons. One of them actually asked for break in rent, which I was happy to give them. I've got a restaurant, I've got two restaurant buildings that we were going to find tenants for but again, it's difficult to find people wanting to open a restaurant in this climate. So, I've partnered with a chef and we are going to open up two different restaurants in two different locations.

I think it's just getting creative, giving your tenants breaks. Again, because I've partnered with my tenants, I understand that when they're not producing revenue, it's difficult for me to enforce rent collections. We've worked out win-win solutions where for a couple of months they pay half the rent. They feel great about it, it's awesome for me because I'm still collecting rent. Again, it's just adapting to the climate and working with your partners.

[0:11:27.4] WS: Do you plan to self-manage long term?

[0:11:30.3] AP: I think so, I don't believe a property management company would be as responsive as I am and I don't want my tenants to have to call, get a ticket number and hear that, "We'll have somebody get back to you within 24 hours."

I want to make things right. As a matter of fact, I would rather, the tenants hear it from me, that I'll have somebody there tomorrow, versus a third-party. Yeah, I think self-managing is the key. I've talked to some older real estate investors that have been around and had huge portfolios and they stick to that philosophy as well. You know that's several of them if they've ever used a

property management company and they'd look at me like I had two heads and they just didn't grasp the concept of allowing somebody else to interact with your tenants, so yeah, I think that is one of the keys.

[0:12:20.5] WS: Do you feel that that will hinder you from growing, you know, long-term trying to do it and all of the self-management?

[0:12:27.1] AP: I don't believe so because if it gets to that point, something is off, right? I shouldn't be getting that many calls from tenants. Now filling vacancies, I think has to be done by me. I need to be the one that sells the vacant spaces. If I ever get to the point where it's difficult to self-manage, I would hire a partner, not an assistant but an actual partner.

[0:12:50.4] WS: Nice, I love that thinking through hiring a partner versus an assistant. That definitely are two different types of thought process there. Do you mind to elaborate on that?

[0:12:59.0] AP: Yes, I would have somebody that's invested in these deals. I would maybe do more joint ventures where the partner is primarily doing the managing of the properties and I have done that over the last couple of years and it's worked out well. A couple friends of mine who wanted to get into commercial real estate, I have partnered with them on deals that they've brought and I manage properties at a higher level but I'll teach them how to do the day to day.

Recently, we acquired an industrial park with three different tenants and it's an hour, an hour a half away. So I coached my partner on how to introduce yourself to the tenants. Let them know that you're here whenever they need and your goal is to keep them here long term as well, because when you acquire new property, when they found out that their building has been sold, there's a lot of anxiety. They don't know if we want to take over the space for our own business or what our intentions are. So, right off the bat, we make it very clear.

We also go in and do some kind of visual improvement, whether it's signage, paint, lighting so that they know we're hands-on landlords. We're not just going to sit back and collect rent. So, me teaching this person how to interact with the tenants, give them that initial speech kind of trains him for future deals whether we do them together or not.

[0:14:33.2] WS: What's the hardest part of the real estate business or specifically syndication for you?

[0:14:38.2] AP: So I don't syndicate at all, right? I just invest in syndications. For me, the hardest part is probably the back end systems, tracking expenses, financials so tax time for me is kind of a hair-raising experience and I've been through an audit, which I luckily passed but I am more of a "do things by the seat of your pants," versus tracking everything, right? I just need to get better at that.

[0:15:05.3] WS: Is there a system or a tool that you've implemented to minimize that hardship?

[0:15:10.2] AP: I've used some financial tracking tools versus my Excel spreadsheet. I just need to get a lot better at that.

[0:15:17.6] WS: Ash, you know how do you – the type of operation that you have with the numerous different asset classes, how do you prepare for a potential downturn?

[0:15:25.6] AP: One, not be overleveraged — so anticipate properties going vacant to some extent to be able to have enough of a cushion to where you can weather that storm because things will always turnaround, right? If a strip mall goes vacant, I know what the expenses are. I know what the mortgage is and I need to be able to weather that for several months. With commercial tenants, it's a little bit different than residential where they sign often personal guarantees or corporate guarantees in the leases.

While you're not going to go after somebody with a personal guarantee if their business failed, the corporate guarantees are a different story.

[0:16:08.2] WS: What do you predict to happen in the real estate market over the next six to 12 months?

[0:16:12.4] AP: I think the retail apocalypse will continue with class-A office space, class-A retail but I also think that the suburban neighborhood commercial buildings will thrive. People are doing things closer to home. They are not travelling to the restaurant downtown, they're going to

the restaurant around the corner and the mentality now with people wanting to shop local is helping that tremendously, office space in those high-rises is suffering.

But office space in neighborhood locations, where people want a five-minute commute to work are doing well or people just want to get out of their house or you know, people who are used to showing up at their corporate headquarters and now, the companies allowed people to rent office space closer to their home. Suburban office spaces will continue to thrive. Suburban commercial will continue to thrive. Class-A city center type of commercial real estate will suffer.

[0:17:12.9] WS: Do you have a couple of daily habits that you are disciplined about that have helped you achieve success?

[0:17:19.0] AP: Yes, looking for deals several times a day is the primary reason for my success. Often, I'll beat other people to the punch just because I am looking more than they are and I am more responsive than they are. You know, I've had a number of people since I got back on this podcast circuit bring commercial deals to me and by the time I check my email or click on the texted link, the deal is already gone and I try to instill to these people you cannot wait —

Lock-up whatever property you think is a good deal. I spend probably three or four times a day, I'll look at every property that comes up in a 100-mile radius and often that first mover advantage is the reason I am able to get the deals.

[0:18:06.9] WS: What are you looking at to find those deals? Like three or four time a day, what are you looking at to see that?

[0:18:12.7] AP: The biggest portal that I've gotten deals from is residential realtors posting commercial deals. I would say more than half of my deals have come from there. You know, I used to pay four or \$5,000 for LoopNet memberships and I've never gotten a deal from LoopNet. I've gotten some deals from networking, brokers but by far, I've gotten the most from residential realtors listing commercial property.

They often mis-price it and not a lot of people look for residential realtors to post commercial properties, so they're looking on Craig's, see LoopNet, all of the typical, you know, interacting

with brokers but rarely do people scour residential MLS sites and filter it by commercial real estate but there's a ton of deals out there.

[0:19:01.7] WS: Great tip, appreciate that. What about the number one thing that's contributed to your success?

[0:19:07.3] AP: I believe it is partnering with my tenants and again, that advice that I received on my second ever purchase, where the installer said, "Your only job is to make sure you do everything that you can to make sure your tenants succeeds." I think that's been the biggest key to success for me.

[0:19:29.6] WS: How do you like to give back?

[0:19:31.2] AP: Other than charitable organizations, I give back by educating anyone that wants a mentor. My rule is I will match your time and effort with mine. I've had a number of people over the years who have come up to me and said, "Hey, I want to do what you do. Like I want to learn commercial real estate" blah-blah-blah. You know, 98% of those people just want to get paid. They just want that mailbox money but that 2% that take the initiative to put the effort in, I'll coach them all the way through it. I'll invest in their deals. Yeah, I'll mentor anybody who is hungry for it and puts the effort in.

[0:20:09.3] WS: I love that how you mentioned you will match your time for theirs because you're looking for that 2% who is willing to put the time in.

[0:20:18.0] AP: Yeah and you know often, my very first conversation, my initial conversations go anywhere from 15 to 30 minutes with people and I am truly intrigued with their stories but then we end with me giving them a simple homework assignment and that's as little as, "Find three commercial properties that you think are appealing and tell me why," and again, that's where people drop off and fall off the radar and never follow through.

[0:20:43.5] WS: Ash, it's been a great show. It's been a pleasure to have you on that I think that your mindset of finding these commercial properties in suburban areas is probably – it kind of expanded, you know the listeners mind and I know mine as well to two different asset classes

like that in a different location potentially than maybe where we had wanted to look before but then also just you know, I appreciate you sharing about looking on the residential real estate sites to find deals in commercial real estate.

Like how you mentioned, you know those realtors are not typically a commercial realtor and they may not understand how to value a property but they do get that listing sometimes from that seller. I'm grateful for your time. Tell the listeners how they can get in touch with you and learn more about you?

[0:21:24.8] AP: You could find me on Facebook, Ash Patel Cincinnati. LinkedIn, Ash Patel Cincinnati.

[0:21:31.8] WS: Awesome Ash, that's a wrap. Thank you very much.

[0:21:35.3] AP: Thank you. I'm a big fan and I appreciate you having me on here.

[END OF INTERVIEW]

[0:21:39.9] 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]

[0:22:20.1] 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

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