

EPISODE 827

[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 Hemal Badiani, thanks for being on the show this morning.

[0:00:32.3] HB: Thank you Whitney, it's super exciting to be here man.

[0:00:35.4] WS: Awesome, well, a pleasure to meet you and to have you on the show as well. Hemal is the founder of Exponential Equity, a real estate investment company, specializing in investments across multiple asset classes in the Southeast and Midwest. Prior to establishing Exponential Equity, Hemal provided management consulting services to several Fortune 100 companies across three continents, while creating a portfolio of businesses that he scaled and exited, including an outsourcing company and a private lending firm.

Hemal lives with his wife and twin children in Charlotte, North Carolina and focuses on his passion for educating busy families to create passive income and wealth through real estate investments. Well, welcome to the show again Hemal. Pleasure to meet you.

Just what a little I know about your background, I'm really looking forward to this conversation because you've been involved in so many other businesses and personally and helping other

entrepreneurs and CEOs and things like that and helping them to scale, you know, that's what we're all wondering, right? What's that next magical step or thing that we need that's going to help us to scale bigger and better and have more time, right?

Not take more time away. Welcome to the show, get us started a little bit on your background because I think it's important. Everything you've done and accomplished into painting that picture to how you're being able to scale your own business so well?

[0:01:54.0] HB: Yeah, absolutely. I grew up in India, family of business owners, my parents, grandparents owned factories. I grew up in that mindset of understanding how to run businesses both from a profitability perspective but also from an impact perspective, right?

When I migrated to the US for education. I quickly joined after that, management consulting firm and for 15 years, just hung out with CEO's, COO's all the C Suite and really helping them and helping myself to get educated on how Fortune 100 companies are run, but also helping them look after other new products, unique perspectives, growth, efficiency, scale and structure and rigor sometimes.

That they might have gone in one direction for a few years and they really looked for an outside-in perspective and that's where people like myself came in. It was really fortunate to get imbibed in those kinds of about 20 companies that I work with and really, each one of them had a new perspective, different teams.

I interacted with so many people, very smart people. When I looked into, how do I do business, in the world of real estate and you know, how do I create something I really wanted to incorporate some of those and internalize some of those competencies that I've built and that's where we are and that's where the vision of exponential equity came about.

[0:03:19.9] WS: Awesome, well, I want to dive into your unique ability there really and just being able to help businesses grow and how you've done this in the real estate business also

and the listener, like I said, we all want to know that, right? How do we scale, how do we do it better?

Now, one thing you mentioned like before we started recording too is like you know, you wanted to know how to scale to a billion-dollar business and you know, don't we all, right? You've had such great experiences with all these CEO's and different people and growing up in a family of businesses as well that have really groomed you to be able to do this and help us to think that way as well or you know, how can the listener really, today, put some actionable things and step to also scale.

You know, really have that vision for a billion-dollar business somewhere down the road?

[0:04:00.9] HB: Yeah, absolutely. The things that have helped me, some of them might sound cliché but first, the vision. Some people enter businesses for a reason to be doing some transactions and living a life of freedom or any sort of opportunity or supplemental income stream and that's fantastic for them, right?

That's great, when you know yourself and when you know what you stand for and what your vision is, you want to achieve that goal, right? To have a billion-dollar business or to have the vision for that, you have to think a little differently, right? You have to put a timeline on that billion-dollar business, you have to understand what actions on a daily basis you have to take, right?

What transactional stuff, what relationships, what networking, what education and investment of your time you need to provide to get to that level. That's something that you have to keep on top of your mind, whether it's written down or otherwise whatever works for you.

That's number-one thing. Number two-thing in my mind is, flexibility. The goal is one thing, the path to the goal as we all know it can be almost like snakes and ladders, right? You do so many things and so many different ways, some click, some don't but if you focus on the goal.

In the world of real estate, that's why we choose multiple asset classes and multiple markets, right? Multi-family is one of our main asset classes but we also buy land, we also buy office buildings, you'll also look again at hotels at some point and really understanding and not generalizing, trying to get to one, just specific thing. We keep ourselves with options open.

Macroeconomics wise, the market could shift, the trends could shift, politics could impact certain things and you really want to have a business that allows you to continue to grow and scale even with any of the external changes that might be impacted. That was number two.

Number three was you know, be okay with your gut and turning left when everybody's turning right. I spoke about office buildings, I spoke about hotels, most people freak out in this environment when you talk about those asset classes.

In our perspective, there's always something specific about a market that is okay for a specific asset class and if you have the right complementary expertise, which I'll talk about, you really cannot generalize and you can be specific about certain assets. You might find this stressed assets or opportunities that could be a gold mine.

Being open about options again and being okay to be bold in terms of both swinging the bat, in terms of taking action but also the types of things that you take action on. That's the third thing that I would prefer and that's what help me in terms of thinking about scaling.

The last thing is, partnerships and delegation of authority, right? Having the right complementary set of expertise and competencies, I don't come from a construction business standpoint, for example. My wife doesn't even trust me with a nail gun in our house, right?

For me to get into real estate, I really need the right operational expertise around me. I think John Rockefeller said this: "I would rather have 1% of hundred people's efforts than 100% of my own effort" right? If you want to scale to a billion dollars of business, 10% of that versus 100% of a 10-million-dollar business, you got to do the math, where do you stand, how do you have that right attraction of skills and understand your own strength, understand other people,

read them, understand their visions and values and bring them along in that journey so they can form and forge a strong partnership team.

Then, carry the business forward to a billion dollars. Those are my four principles that has allowed me to at least saying we're still a long way from the billion-dollar journey but we have had incredible momentum and very grateful for that.

[0:08:09.9] WS: Nice. Each of those, I can relate to personally and it's incredible list right there. How has your vision changed? You know, since you first thought about this or has it changed?

[0:08:20.9] HB: Absolutely, it changes every few months, right? The vision of, "The goal" hasn't changed but I started two and a half years back in the single-family realm. I quickly again scaled up just the way I work is — I like to scale. Very quickly I had a handful of employees here in the United States, outsourced a set of employees and we're really flipping houses transactionally, a lot many times a month.

What I found out was that there was a lot of commitment of my time, it was a very successful business but my time commitment almost made it into another job and it took away time for my family and my personal time that I really wanted to invest somewhere else.

I was at that junction where I was struggling, right? It's hard to back away from a very successful business and really climb up not a mountain with not a set of investment of education and opportunities and partnerships and networks.

At that stage, I actually got a coach, a performance coach and really helped me change my mindset and really sought after that type of mindset and thinking. I knew in my back of my mind what I needed to do but I was struggling to say, "How do I wind down something so successful and really start something that I know in my heart that's going to take me to the next level but I'm at zero."

2020, I hired a coach, changed my mindset, wound down my single-family business, really, just before COVID hit, a couple of months before that, I started educating myself on the multi-family and commercial space, attended a couple of events, really took a lot of actions when everybody again was in COVID mode, invested passively in three investments in summer and spring timeframe of 2020, and then, we started the active soup to nuts deals ourselves and so we have a few hundred units that we are managing.

About another 700 units under contract right now just in the multi-family land, with all the other businesses expanding as well.

[0:10:24.4] WS: Nice, well, you also mentioned one of your things you listed out there like be okay with your gut, you can turn left when everyone else is turning right, that too difficult, right? So many times, that distinguishes somebody who is maybe successful versus ultra-successful, right?

Or the opposite, you know, really, it falls on their face potentially. But it is, being able to think through some of those things when everyone else is running away, making a different decision and that's hard. Do you have an example of how you've done that or you know, and you also mentioned in that same thing like you had to take action, right?

There are things that you took action on and could you elaborate?

[0:10:58.1] HB: Yeah, absolutely. When it comes to – let me talk about the action first, right? When I started educating myself in the world of multi-family and syndication, I had not heard a word before 2020, it was super exciting, right? Because the business model, this is fantastic, why is not everyone else doing this?

This is like Zen meditation. This is the only way we should invest. But quickly found out, when you go into social media, there's just so many webinars and podcast and so many things that you could consume and it can quickly become a shiny object syndrome and overwhelming set of data and information for anyone.

It will quickly lead you to analysis paralysis. I had to – after 20, 30 days of that type of just trying to think that I'm educating myself but then started getting similar information from webinars and things that I was consuming, I had to stop myself and say, "Is this leading me to the next step?"

Can I instead find one or two mentors, really invest my time and money into someone or one or two sets of people that can take me to the next level? I understand their vision and values, I understand their in competencies, they are the real deal.

Once I found those, it was just about follow them to the deep, do not try to reinvent the wheel, understand what they're doing, bring it to the table and then based on my past experience and competencies, start building the culture on how I wanted to run the company and our vision and values.

That was the action part of it and on the turning left when everybody's turning right, the first two deals we did were the stress deals, right? Most people when they start looking at multi-family in this market or at least, over the next few years, they look at the top 10 cities. They look at great stabilized assets like value add or something that's going on that's just going to take organically that asset to the next level because the market and the tailwinds allow you to do that and when you start looking and then when we start looking at that, we said:

"Well, there are 60 other people bidding on that" and so, how do we not overpay and establish our self? Is this the only path that we have? Our first two opportunities we said, "Why don't we explore beyond those 10 cities?" there are markets and cities and towns in the United States that people still want to live in, right? Beyond those top 10 markets that are out there. That may not be crazy growing but still, communities and residents want great places to live and safe places to live.

Why don't we make an impact there? We look and explore beyond the top 10 or 20 cities. We also looked and said, "Do we really need to just go and stabilize? Do we have partnerships and

a consortium that allows us to go for this stress test that's at a lower occupancy? Can we really get a discount given that the COVID environment is going on, a very healthy discount? Can we buy things at 60 cents on the dollar?" and everybody else is apprehensive or scared about doing deals.

We really had great opportunities and found unicorns that we took at 50% occupancy and really now in the last two months, I've made it to 70, 80% occupancy. It's a lot of sweat equity, a lot of work, a lot of partnerships built through that but really looked left when everybody is looking right and we're bidding on assets that are great, stabilized but also the reward aspect of it in my opinion is less than what we found.

[0:14:29.8] WS: No, I appreciate you sharing that. I think it's something as an entrepreneur, you always have to be looking for and sometimes that can be a good sign when everybody else is running away. What about one more thing that you talked about needing the right complimentary expertise, I couldn't agree with you more. Tell me, who's your first hire in this, real estate syndication business maybe who the listeners should be thinking about hiring and maybe your second hire as well?

[0:14:51.0] HB: Yeah, so our first hire or my first partner was a person – well, one of my good friends that I knew had a more analytical mind or a more thorough property management expertise and multi-operational expertise because he owns his own single-family portfolio that he used to run. Taking that skill, understanding and trusting that partner who is just a natural, you know, I knew him for 10, 15 years so he became the CEO in the firm.

That was kind of the first partnership we forged and the second one was been at actually three acquisitions folks and each of them – so we have a team of acquisitions now, three people. We run through a hundred deals a month just on the multi-family side and we systematized multi-step of due diligence that complimentary skillset that allowed us to do that. Each of them came from a different arena.

One person, the main person who manages all of our initial due diligence including initial walkthrough that person was a multi-family acquisitions person in prior experience and he was helping freelancing with some other companies, kind of helping them and we allowed them to forge a partnership with us and bring deals to the table initially transactionally and then eventually as we established the trust, we got them full-time working with us in a conjunction.

The other two people came from a wholesaling or residential brokerage background, so they were more comfortable from a sales angle, speaking direct to sellers or establishing rapport over the brokers. Really, our thinking is sales skills or any other skillset can be really taught, right? It's not – some people are super natural at it but most of the times, those skills are taught. What cannot be taught is drive and ethics and integrity, right?

We look for people who really understand the vision that we have not just from a scale perspective but how we want to scale, right? We want to scale very ethically. We have a great fiduciary responsibility for our investors and we really want to make sure that everybody who works with us has a long-term focus. People come to us again and again to work with us, that's the number one thing we want to have and so we attract people who want to work in that kind of environment and not just transactional one or two times and trying to maximize the profit or anything of that sort.

Then we work on their strengths and see where they fit in the team and that's how we're trying to grow.

[0:17:18.6] WS: Awesome. Well, some great things right there and I love how you talked about, you know, your first hire was a partner. You know, somebody who really shares your vision, all of those things but also this team that are focused on acquisitions. I think it's interesting, you know, just how you elaborated on their backgrounds too. You had somebody that's already been in multi-family acquisitions or multi-family background and so there's some great skillsets.

Then the other two, I think you mentioned you have a brokerage background or you know, being on that side of the business where they are going to be able to speak that lingo and definitely play a big role in acquisitions for sure but then just talking about the drive and ethics integrity, it cannot be taught. If it wasn't taught at a very young age, it is difficult to change that later on, that's for sure. What's been the hardest part of this syndication process or business for you? I mean even with all of the business experience, what's been the hardest part?

[0:18:06.3] HB: Yeah, it's hard to stay disciplined, right? The allure of right now finding a great asset, knowing where you stay from a number's standpoint but then given the free money that's been printed and a lot of focus especially in the multi-family range from retail investors or other commercial asset investors and international money coming in, there is a lot of price, hacking almost going on that it's very, very hard to stay disciplined, right, and say, "I'm not overpaying" and we've been fortunate so far and disappointed many, many times and so when we lose a deal that we know that we can execute on and really leave an impact and build a great community close to us or otherwise across the United States but we'll keep chugging and that is why we have systematized multi-step process. We try to kill the deal and the price range that we have is the price range we have.

We'll bear with the disappointments and that really wouldn't scale long-term from that perspective because our investors at the end of the day would be happy and trusting that once we find a deal and once we execute on it there is no stopping it. It is going to make a ton of money for them.

[0:19:18.8] WS: On that same note, how do you prepare for a downturn?

[0:19:22.8] HB: A, we stress-test the deal multiple ways, right? The second thing is again, going – people go right when we are trying to go left. Even in the financing world from a debt perspective, we really are not looking for Fannie Mae or Freddie Mac agency type of loans. We look for bridge debt so it allows us flexibility. From our opinion people think that you know, a 3% loan is great but if the 3% loan is locking you for 12 years and a prepay penalty is super high, well that might not be a great scenario if you want to exit three years from now, right?

Again, we bring that flexibility element to the table when we are structuring our assets and the third thing is communication, right? Most people in this world when they are doing investments, they forget. Investors forget that at the end of the day, any investment has some level of risk associated with it and we are very clear on what the risks associated with this asset that we procure are and make sure that the investors understand that. Those are the three things mainly for each asset we rigorously apply.

[0:20:29.6] WS: What do you predict will happen in the real estate market over the next six to 12 months?

[0:20:33.8] HB: My thesis is contrarian to most people. I believe especially in the multi-family realm, the cap rates are going to continue to compress and the reason is again, there's a lot of free money that is looking for returns and multi-family is a very safe bet. There could be some hiccups in the net operating income. If there is eviction moratorium based on the stimulus package or otherwise, there could be some short term pain in terms of how much you can earn from an income standpoint on any given opportunity.

But in the long run, the price point will increase and the cap rates would continue to compress in the multi-family range.

[0:21:14.8] WS: Do you have a couple of daily habits that you have that have helped you achieve success?

[0:21:19.7] HB: Yes, clearing my mind and planning for the long-term. When you have twin kids with school and business and I still have my full-time job, my wife is an entrepreneur, it's so easy to go-go-go-go-go and stopping yourself whether you do a meditative practice or otherwise, just taking 10 minutes of deep breath to know where you are, being grateful and starting from that position of positivity really makes me flow through the day without any effort.

The second thing is just planning. I plan two weeks out, so all of my meetings with my assistant every Sunday, every week Sunday in the evening I sit down and I plan two weeks out. All schedules or podcast interviews, anything that I have at least I have two weeks and so it allows me the flexibility to change anything, give people enough notice and make sure that I have a good game plan on what not just the next few days look like but the next two weeks look like.

[0:22:20.0] WS: What's your best source for meeting new investors right now?

[0:22:23.1] HB: Right now, it's been LinkedIn and Facebook for sure. Social media has been the name of the game. We are trying to start on local meet-ups again but from this little thing called COVID has resurfaced its head permanently, so we are trying to refrain from that but so far, it's been just our network because we have enjoyed incredible credibility in the management-consulting world and other businesses, people know us. People trust us and are okay with investing their money with us rather than just complete strangers.

[0:22:54.6] WS: What's the number one thing that's contributed to your success?

[0:22:57.4] HB: It's been patience and focus. I run very fast on a daily basis but I look at 10 years. It is okay to have an 18-month goal but the 10 years of where I want to focus, where do I want to be from a life perspective, where do I want to be from an experience standpoint, how do I want to live on a daily basis? That's my focus.

[0:23:17.9] WS: How do you like to give back?

[0:23:19.9] HB: I'm pretty active on Facebook and LinkedIn, so I am happy to connect with folks on there at Hemal Badiani and then our website, please feel free to schedule a call. It's www.exponential-equity.com.

[0:23:33.9] WS: Awesome, that's a wrap. Thank you very much.

[0:23:36.8] HB: Absolutely, thank you once again Whitney. This was a pleasure conversing with you and look forward to many more interactions.

[END OF INTERVIEW]

[0:23:43.3] 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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