EPISODE 898

[INTRO]

[00:01] 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]

[00:23] Whitney Sewell
This is your daily real estate syndication Show. I'm your host, Whitney Sewell. Today, our guest is Michael Becker. But it is a continuation of yesterday's show, we were having a great conversation. He has such a powerhouse in our industry, and has been so successful. So it's been a great conversation. It went a little long, though. So we decided to split it up into two days also had some computer difficulties. And so we split the show. But I hope you have enjoyed these episodes with him as we talked to many things about the issues in Texas right now through the unexpected cold weather and freezing that they had. And you know, having 300 units that have issues and tenants that have issues with no power and water and all those things. So I hope you are enjoying the show. And I hope you are learning a lot and growing your business. Whether you are a passive investor or an operator, either one of you are learning a lot reach out to me, if I can help you in any way, you can always email us info@lifebridgecapital.com, if you have any feedback, I would be very grateful. Have a blessed day and enjoy the show. All right, I thought we could just roll right into how this has helped you prepare for a downturn or what you've learned and then moving forward just and how you prepare for a downturn in general.

[01:30] Michael Becker
So yeah, Whitney, ever since we kind of got into the second part of 2020, you know, we were the first cover really kind of on the transactional side on the rest of the sales side really kind of killed all the momentum that we kind of had going into 2020 was a you know, really good first two months a year for us personally, and that a lot of people I know that all sudden everything kind of ground to a halt and march and we kind of took 90 to 120 days off and then June July came back around and started kind of seeing a little trickle and then towards the latter part of third quarter and really kind of the fourth quarter of 2020. Now it's been kind of back like business as usual, in a lot of ways. And the interest rates are quite a bit lower than what they were. I know here in real time, that kind of creeping up at least on the long end of the curve, the 10 year treasuries kind of tick back up a little bit, which is probably going to if that keeps going that'll probably have some level of impact at some point it really hasn't yet pricing, but seemed

like that the fourth quarter trades really didn't weren't very impacted very much by COVID. I mean, the cap rates are pretty much the same, even though the interest rates were down, you know, probably a third maybe more from what they were kind of going into the lockdowns and then kind of seemed like to me, we bought two or three deals to kind of post COVID in 2020. And felt like we're getting pretty good buys, we're getting really good loans and or cash on cash is better because our interest our debt, which is better interest rates are better. And kind of felt like as we were entering or finishing up 2020 I felt like either one or two things were going to have to happen either interest rates were going to go up or cap rates were going to go down and as we are in 2021. Now we'll set a deal late last year set to do late last year, we closed one about a week ago and closing one this week. So we're going to have a second skin on the wall this year. And in real time right now as I'm looking we have a 1031 we're trying to go plays real time right now it feels like cap rates are compressing, and your pricing is going up. And it's just we have all these different market participants coming in, you know, well, all the same people that have been here are still here, bunch of extra people coming in from both of the coasts really kind of come to the Texas market, I'm sure Florida, Arizona, Carolinas I'm sure they're getting their fair share as well. And then we're starting to see some other people that traditionally have played in the hospitality, office or retail space. Those are kind of generally an investable, especially on an institutional basis right now. So a lot of that money is flowing into multifamily and industrial. So it feels like in real time right now. First Quarter 2021. We are seeing capris compress prices accelerating. That's kind of what it feels like right now.

[03:55] Whitney Sewell
So Michael, I'd love for you to answer this. Ask every operator that comes on the show. And just from your level experience. I'd love to hear your thoughts on this as well. But being prepared for a downturn, how do they prepare for a downturn? What is it that's like non-negotiable things for you, but even going through this last year, maybe you can speak to some things that you already had in place beforehand that helped you to be affected as little as possible through a pandemic, and then even moving forward. Maybe things that have changed or things you put in place since then.

[04:25] Michael Becker
Yeah, I mean, I think some of the things that really were helpful that really helped us over the last 12 months, you know, one I think we kind of were on a mission of so I'm kind of old by new so we can transition out of some older, tougher stuff that we had, we never really had much in high crime locations. That was always something I was really particular about location. So but the delinquency that, you know, problems that we did have, they were a little bit more concentrated within the more than workforce housing. So that proved to be a little bit wise or helpful from a collection standpoint. I'm not saying that I think people that had you know, good located well maintained workforce housing, I don't think they really had too many problems. But you know, they did have a little bit more delinquency issues, they're making sure we had the good proper management teams in place, I felt really good that we tested the management teams, and they handled it really well. Extremely proactive, you know, asking for money every day, you know, basically knocking on doors and continue to ask for some money. And that was really helpful. You know, I like most people working with some payment plans for the residents,

making sure they have resources to get all the state and local and charities and these various places, kind of help them some rental assistance till the government programs really started kicking in just now. And then obviously, in addition to that, my former partner and I, we did a rent relief on and we probably put up, you know, 60 70,000 on their own money, and then we had some of our best sellers pitch into that. So we'd help some residents to pay a portion of the rents as well. So that kind of really helped keep some of these people that otherwise are good, residents just kind of hit a little hard spot, they help those people kind of get through it for a few months. So I felt pretty good about that. And then kind of you notice structurally, the way we set these deals up, were first started out, we had a lot of fixed rate mortgages. So you know, we didn't really have any kind of rate risk on those that turned out to be bad decision, because rates kept going down and down and down. Last, you know, two or three years, we do a lot of adjustable rate mortgages. And those deals really, really shine the last 12 months. So with Nico's liable went from you know, 2% point one 5%. So, you know, we got an almost 200 basis points or 2% of interest savings, in some cases, on these deals. And so, you know, our interest rates got cut, like in half, and a lot of cases. And it really, you know, at the time where you were a little worried about the durability of your income and actually being able to collect the money as extremely helpful. So, you know, some of these deals were, we're just basically printing money, and we were making more money today than we ever have, and just a bunch of that our debt services cut in half. So that was extremely helpful. And lessons learned. I mean, I think if you take the floating rate, you know, having maybe a little bit lower leverage, I think that certainly is helpful, because you know, when my favorite this time, but could go against me another time. But you know, generally, if you're in a recession, the Fed is going to cut rates, they don't really raise rates and economic stress, they raise rates when the economy is going well and booming. So if you hit a recession, have an adjustable rate mortgage, in theory, you should see rate cuts and see some relief within your mountain, you have to pay and you're very communicative with all the lenders, fortunately, we didn't need to really get anything from the lenders at the end of the day, but you know, the front of the front end of the deal, it was like are we going to have to get into forbearance, and the no one really knew, being really proactive about collecting money, you know, setting the deal up, right, not being over leveraged and making sure we had a proper working capital. You know, we had early in my career, a couple of the deals we did, and we never had any major issues. But we came in maybe a little light on some working capital and a handful of deals, those deals always kind of, you know, just a little bit harder to get through your business plan, and you don't really have the margin for error. So after making that kind of minor mistake a few times every deal we do now we come in, you know, with an abundance of working capital, so we have enough money to do everything we need to do plus some you know, just in case money, something that you didn't expect, like the power grid shut down for two days in Texas in the middle of a cold snap is we have enough money to go fix a bunch of sheetrock and carpets and things like that. So having a proper working capital. So that would be something I think that a lot of people make a mi stake on.

[08:16] Whitney Sewell
I've seen it many times. I've not been in this business near as long as you but one thing that's very important to us is have that massive reserve budget from day one, is there a way that you

calculate that a rule of thumb that says, you know, what, we want this much proper working capital or you know, is that separate from an emergency fund or reserve budget?

[08:33] Michael Becker
Yeah, I mean, you have your capital expenditure budget, which there's going to be rolled in the loan Are you self-escrow? So that's you know, one thing so if you self-escrow kind of as you can double up a little bit so you know, you have this money to go do a bunch of renovations, but if you hit unexpected issue, you can tap yourself escrow cap back, so Memphis escrow with the lender, you don't have access to that. So it's a different story. But you know, usually we try to log in, you know, $100,000, at minimum, and then on top of that, usually kind of roll in emosi deals around to $300,000. And then when you close, generally getting reparations, and you kind of prepay your first plus interest. So then, before you actually make a mortgage payment, you have to two rounds of collections before you actually pay your mortgage bill. So usually, your expenses are kind of 30 days in arrears in most cases. So usually, most, you know, probably 80% of the money you collect on that first rent check is going to go to your bottom line as well. So you know, I think you'd be coming in with 100 to 300,000, depending on the size of the deal. I guess there's a smaller deal, you may be cut that down, and I probably should have a better answer. And I don't really have a rule of thumb, but I think about it is, you know, it's want to make sure I have plenty of money Plus, I know I'm going to get that first round of collections where I don't really have a lot of expenses. So I'll be able to kind of pad that working capital. And usually we wait two to three months before we start up distributions anyways. So we're getting some additional working capital is kind of built up by just not paying out the distributions for the first two, three months. It's kind of retaining the free cash flow.

[09:59] Whitney Sewell
Yes, and with as many projects as you have, and something we've debated about, I'd love to get your thoughts on this, like, after you've done numerous deals, you have all these reserved budgets, like, that's a lot of capital just sitting there. Right, and you can't intermingle the funds. But is there a way that you found a better use that capital, I mean, as opposed to just millions literally just sitting there in these accounts?

[10:21] Michael Becker
Well, wish you had a better I mean, we should have bought Bitcoin a couple years ago, and I would sit there and the checking account and you know, the last me shoot almost the whole year, now, when we get to do any sort of Fannie or Freddie loan, or put these COVID reserves on top of it.

[10:35] Whitney Sewell
Right,

[10:36] Michael Becker
We are, we did a pretty large loan last year, and I'm going to add $2.6 million, and COVID escrows, on top of the normal escrows. And so just sitting there dead money that you know, it's just in case, so it's, it's a little bit challenging, it's not earning any interest, or if you do put in a

money market account, you're going to get, you know, a 25 basis points or something like that. So it's pretty negligible. I think it's just part of being uprooted on or just having that he's going to get a second up a little bit. But yeah, if you, you come up with something genius, as I have the rest of the Bitcoin, otherwise, I guess, maybe buys a Bitcoin?

[11:07] Whitney Sewell
Yeah, I know, you have to abide by your operating agreement, things you've set in place with your investors. But I just wondered, you know, after doing that many deals, because there's just a lot of capital, my business partner, I've thought about it often, you know, it's just shame all this just sitting there, but you need it, you will need it there in case you need it. Right. That's why it's there. But what do you predict Michael, you know, in the real estate market over the next six to 12 months? And how, you know, how are you looking at deals, are you looking at them differently than you did say, a year ago,

[11:31] Michael Becker
You know, I would think, tighter and more challenging. And especially as we're buying nicer stuff, I mean, we're, we're really able to compete pretty well, with institutions, and we got a little bit more of the entrepreneurial setup and spirit and go a little quicker than some of these people. So we're able to buy some nice stuff I'm actually looking at, we have a 1031 exchange for client like right now, I'm hoping today to hear back that we want a 70 plus million dollar deal down in Austin and you're pumped think I'm crazy, but we're worried maybe I am, maybe there's going to be a terrible mistake about what you're meant to do. But we're hopefully going to buy a deal without too high 220s a door really brand new deal, real nice, real good part of town. But it's going to be like a sub three cat, because they're historical operating numbers, because there were some concessions on this mat. So we're kind of having to work through the numbers and kind of bet on the column a little bit and kind of look at the pro forma a little bit. But you know, I'm seeing like what replacement cost is, so the developer couldn't put this building on the ground for any less than 250 a day. Plus, I got to make a profit on top of that. So I feel like I'm buying it for 20,000 or so below replacement costs. Because the cost is escalated so much between labor and lumbers. I like all-time highs and copper shot up like 6%. Yesterday, I mean, all these raw materials, the input values are going into these deals are going up and up and up and up. So I feel like we're buying up low replacement costs. So either the developers are going to have to rise or concessions go away to make these deals make sense, or the developer is going to stop building because I can't make this home make sense. So I can't lose money over and over and again and keep attracting capital. So it feels like is a pretty good bet. Because it's going to come and we have more different math with the 1031. So that's kind of what we're doing there. And then out of the workforce housing stuff. I mean, it's tough to pay the same cap on or 4000, do what you can for something that's five years old, right? No, you got the upside, and, um, and it seems like that risk is mispriced to me. So it is challenging to make some of these deals make sense. And so we're just trying to find what we think is the relative value to current market and continue to, you know, put these deals out, you got to produce some level of yield along the way, which is certainly not what it was a few years ago. And make sure you get the proper amount of debt don't over leverage a deal. I see a lot of people may be trying to ramp up the leverage, maybe stripping some preferred equity or some mezzanine financing behind it

to really kind of increase the leverage and giusta IRR returns for their investors. So trying to stay away from you know, doing stuff like that. We've never done that. And I'm just trying to stay away from that I recommend that other people do and just kind of be really diligent and you know, I found by doing enough of these deals, Whitney, there's always a deal. You know, there's always a deal relative to current market, how are you willing to work into it? It's a completely unfair business as who you know what, you know what tips you can trade, you know, and people do business with people I know, like and trust. So if you could get that trust and these brokers to like you, because the brokers control the deals. That's kind of really where you find your edge and trying to get in and just look at everything in the market a year and then or, you know, a couple markets a year and just look at everything because you need to be looking at everything. And the answer is always when you can't find a deal. The answer is always be you got to just do more. He's got to work harder, you got to get more deals, and eventually one of theme's going to make sense and it's going to be a value relative to everything else.

[14:36] Whitney Sewell
What about a couple of daily habits that you're disciplined about that have helped you achieve success?

[14:41] Michael Becker
You know, I wish I was a little bit more discipline and had a morning routine and a lot of stuff like other people to meditate and stuff like that. But you know, I think that what I do well Whitney is I kind of realized where my north is right? You know, my compass, I know where I want to go. And I'm not perfect, you know, I'll get distracted. I'll do certain things. I'll kind of go down a rabbit hole and burn a half an hour. My life, middle of day not being very productive, that kind of snap out of it. Because I know at the end of the day to do what I do, there's a lot of responsibility on me, we got to do a lot of stuff. But at the end of the day, if you do what I do what you do for a living, the way you make money is you got to find deals, you got to find capital, right. So find money, find deals and everything else, that sort of noise, you know, it's important, and you got to like, make sure you get all UK ones out, like we just did an asset managed to deal with breaks if the one of temperatures close, but low, but man day get to find deals and find money. So if I find myself doing a bunch of low value tasks, I try to find a way to get that off of me with either a system or an employee or resource or something. So I'm like, constantly, like snap myself out of it. If I start wasting time and doing stuff that's not really driving the greater mission of my company, like stop it course correct. And just focus on the highest value task. So I think I do a pretty good job of that being self-aware and not letting myself go too far down the rabbit hole of stuff that doesn't really matter.

[15:57] Whitney Sewell
That's a skill that most struggle with or maybe everybody does at some point. But that's a great skill to have. And on that note, you talked about it when people say we can't find a deal, and you just have to look more ever look at more deals under more deals, all those things. But then you mentioned you know about finding investors, what is your best source for meeting new investors right now,

[16:14] Michael Becker
Through the podcast, I was a co-host old capital podcast for last six years. So probably where you first met me, a lot of people might know me from that. And then that kind of my new show the multifamily investor show Michael Becker. So I get several people a week off for that. And then one a is probably just referrals from our existing database. You know, when you do well, by people for several years, they refer their friends and family and kind of goes out in that way. So wish we were just that by hire a marketing person, I have been kind of doing all this bootstrap without really any professional help. So we're about to find someone else finally helped me kind of do this in a little bit more professional way, and be a little bit more strategic about how we go about it. But I think, you know, really, if you start now, and if you don't have a podcast or, you know, track record, you know, going to local meetups, I think that's about to be a thing again, you know, we haven't done it for a while now. I think that's about to be a thing again, so you got to get out, I say this last year's kind of challenge. My goal saying that I think is really true. At the end of the day, you know, this is a business you can't do 100% behind your you know, at your house or at your office behind your computer, you got to get out you got to go meet people, you got a network where people go into conferences, speaking out events, you know, those are just things that you've got to do. So whether you have a big track record or not be host a little meetup, you know, it's all a relative business. You know, if I've done one deal, and you've done zero deals, I'm 100% more experienced than you even if I only done one deal. So hosting a meetup getting some guest speakers in starting this out, you know, I used to joke with Paul people's, like the goes old capital podcast with me. And, you know, we first started out we had, you know, dozens and dozens of listeners, you know, like Casey, no one listening to us and discern over time, it just kind of builds and get a little bit of inertia to it. And now we get, you know, 40 50,000 downloads a month on, you know, very dry subject, like apartment investing and apartment financing. So it's very niche topic. And just kind of about being consistent showing up doing the right things over and over again, and over time, it kind of will work out for you. But those people that aren't consistent, don't put the work in, they tend to not you know, get the results that they want. And like, kudos to you doing, you know, 900 shows pretty much every day, right? So is every day is every day, 900 days, almost 900 days now you've been putting content out and I can promise you from a guy that doesn't do nearly that volume, it's a heck of a lot of work. So kudos to you and if you could do 1/10 of what Wendy does, you'll probably be pretty successful.

[18:32] Whitney Sewell
I appreciate that, Michael and yeah, it is a great podcast, old Capitol podcast that probably is where I first heard you then you know, we've met at old Capitol event a couple times but what is the number one thing that's contributed to your success?

[18:43] Michael Becker
You know, like I said, I think I'm pretty self-aware you know, I'm not the smartest guy in the world I'm nothing I'm dumb but I'm not the smartest guy in the world. I took a little while to get out of college you know, I was in college for eight years my joke is I have a Tommy Boy by a year and I was kind of list for a little while or work full time I went to night school and I got out and I you know had a sub 3.0 GPA I think was like a two seven when I graduated so but then I

got into work I always had a good work ethic you know and then I really just kind of how work hard all focused on stuff I really knuckle down I don't give up very easily so you know I stick with it. I got to go work ethic I work hard so I think some combination of hard work and just being dumb enough to not give up and just kind of sticking with it I think that goes a long way in this business and you know what I like about the business is really simple you got to buy ideally produce some cash flow no for some value and have I do some strategic renovations you know, so you buy here get good debt on and get your tenants pay your mortgage and all your expenses and get a little cash flow leftover so it's really simple. It's not always easy, you got problems you can mess it up for sure. But no focus on something that's really simple and just kind of do the same thing over and over again kind of come a real master at it. So I think the people that get the kind of the shiny nickel syndrome where they do you know Self-Storage is day and land available the next day and apartments and mobile homes and Airbnb. And all that all that stuff never really get good at any one thing. So I found that riches are niches and find your one thing work hard focus on it and you know make sure it's a simple understandable business. And I think you can be pretty successful whether it's multifamily or you know, some other variation of real estate or an operating business at the end of the day, it could be a pizza delivery company or something, as long as you've worked hard at it,

[20:22] Whitney Sewell
Some very wise words, Michael, I'm grateful for your time. And it's always an honor to have you on the show to somebody with your level of experience and expertise, just many great discussions that we've had over the last half hour or so I'm just grateful to hear just how you have managed all your 6000 units and 300 that were affected over the last week, but then even the pandemic over the last year, and just how you prepare for that and preparing for a downturn and talking about proper working capital mcse and many other things that have allowed you to be successful in this space. So thank you again, how can listeners get in touch with you and learn more about you?

[20:55] Michael Becker
The two resources I'll give out right here is you know, the new show I started which is the multifamily investing show of Michael Becker. So I give us a highly produced show so in a studio try to get pretty high level guests so you know brokers that sell billions of dollars of real estate and owners that own you know, 1000s if not 10s of 1000s of units so it's been kind of my new little passion project. So you can find that on like the YouTube, iTunes stitcher where you probably anywhere to hear my voice now Our website is www.multifamilyinvestingshow.com or my company that I run and operate as SPI advisory so you could go to our website which is www.SPIadvisory.com there's Contact Us form you fill that out and always happy to send out information for you to want to learn a little bit more about us and potentially work with us.

[OUTRO]

[21:36] ANNOUNCER
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