

EPISODE 902

[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 Rick Martin. Thanks for being on the show, Rick.

[00:31] Rick Martin

Absolutely wouldn't be great to be here - my go to podcast.

[00:35] Whitney Sewell

Appreciate that. And just your kind words and listening to the show. Grateful for all the listeners that are with us today. And every day a little about Rick. He is the founder of fortress Federation investments, which brings investors together to purchase apartment communities to help investors build wealth, and never ending income streams. We all want those right. Rick dependent on his left brain to guide him through his creative career, but always had his right brain building his real estate portfolio, which has led him into the multifamily space. His real estate holdings have taken him through Washington State, Nevada, California, Ohio, Indiana, Texas, Florida and Georgia. Rick, welcome to the show grateful to have you on and get to know you even a little better for myself and the listeners. Give us a little more about your focus right now in the syndication space and business. And let's dive into some of your expertise.

[01:26] Rick Martin

Absolutely, well, I've sort of jumped into the south east. That's kind of where my region is. And in looking there, because the numbers work, this really seems to be a flow jobs heading down there. And I think more importantly, I've made some real nice partnerships and a flow people. Absolutely. You know, it just so happens, I've made some great partnerships there. And you know, have some boots on the ground that really know the markets. And beyond just a business relationship, they become friendships, and just really no one like and can really trust these people and just feel good about where things are going right now.

[02:00] Whitney Sewell

Nice. Well, you and I were talking before the show a little bit, I think you've had a lot of interesting conversations lately, I want us to be able to talk about and some different things. But one thing first, you know, as far as benefits to investing in syndication, that are commonly overlooked, I know you're having lots of conversations with investors and whatnot. But I just thought you could highlight some of those benefits. And let's talk about

[02:20] Rick Martin

Yeah, and then having some interesting conversations on bigger pockets, where I kind of lay out some of my active investments and how those have gone some of the performance of some of those compared to some of my passive investments. In many cases, the passive investments are sort of outperforming those active investments. And I think, you know, some people are skeptical, they'd find that hard to believe. But when you consider some of the work and some of the headaches that go into some of these deals, the one deal that I put up as an example, I'm going to do a few of these, by the way, just up on bigger pockets to kind of show some of my experiences

[02:58] Whitney Sewell

I wanted you to highlight or like or be specific about, like, obviously, there's different train thoughts around what's passive and what's active. But I think in this case, you're talking about active meaning like you're buying a duplex, or you're buying a four Plex, something like that yourself, like you're finding the deal. You're doing all that versus just investing in a syndication pathway, right?

[03:16] Rick Martin

Exactly. Yeah, for instance, a partner and I partnered on a couple duplexes out in Palm Desert. And I think that was back in 2011, we bought that thing, and you'd be amazed what we paid for it in California today, you could never expect to buy right like that buy at a discount. So we're feeling good about ourselves, got a good price, we actually ended up paying cash initially put some additional money in and was cash flowing, which is sort of unheard of these days in California. So I tracked that those returns, and we ended up selling in 2015. And you know, doing pretty well, although I would say the overall return is less than some of the passive investments that I currently own. And looking back on that experience, we had some tough times, you know, we had people stealing our AC units, it was an OK area of Palm Desert, not Palm Springs, but it was decent. So we were a little surprised about that. And then we had one tenant that became pretty problematic, and he was not paying his rent. And so we had grounds for eviction, and my partner literally had his life threatened by this guy. So there's some things that you may not see going into a deal you may not expect. And just be aware that these types of things do happen. And in the end, if you kind of compare them side by side, the returns were pretty similar, pretty similar. It's just that there was a lot of time invested in active investment of course,

[04:47] Whitney Sewell

that was going to be one of my questions like how do your account for all the time spent and so I you know, I talked to investors just like you I mean so many every week, and sometimes

there's you know, if they're not experienced in syndication business, maybe you know They've found a few small rentals, it is hard to say, you know, I'm just going to hand this to somebody else and invest passively feel like they've got this under control here, but also did small rentals, you know, whenever we first started 10 or 11 years ago, or 12 years ago, and all the time and the headache, just the brain damage alone, you know, like you're talking about, I mean, being threatened by a tenant, I mean, come on, you know, that's, that's just something I, you know, most never have to go through. But investing passively, obviously, that's not going to happen, right. But all the time spent finding the deal and trying to self-manage, if you are, and just even managing the management company, all those things take a ton of time.

[05:36] Rick Martin

They absolutely do. And if I can, just quickly, you know, you just remind me of another story. I flew to Indianapolis, I'm out here on the west coast. So that's no small feat. And prior to all that all the research of the markets, all the networking, different property managers and contractors, and getting that all set up to fly out there. So there's a lot of time and money spent just before you ever get off the plane. And I ended up doing some deals there. And, and they were fun, you know, I enjoy it. I love monopoly. You know, it's enjoyable. But that particular I'm thinking of a four Plex where the first couple of years, I was averaging about 12% cash on cash, and I was pretty nice return. But then just last year, went through an eviction, and all the proceedings, all the costs, the legal costs going through court, and the fees of the manager charges that brought me down to 8%. That entire 2020. So I lost 25% on that deal. And now already this year, we had and a very expensive punch, turn, and we're sort of on track to do about 910 percent again. So you know, sometimes it's just not all it's cracked up to be. And while I enjoy it, sometimes it just becomes too much of a headache.

[06:49] Whitney Sewell

Okay, and one thing I loved about the syndication business, when I learned about this thing out there called syndication, I had no idea right? I just couldn't believe that, you know, this was even a thing when I first started learning about it. But yeah, you know, I love working with professionals, right, growing a professional business and brand, working with bernado and professional investors, but also professional management, you know, like teams that this is all they do. They I mean day in and day out, they are the experts at that. And that's the teams that I want to build, you know, so I'm not trying to be the one man show and make it all try to make sense. But you know, on the passive side, you know, you've invested passively in numerous deals and you know doing syndications. Also, what about just some questions that you know that syndicator should be asking the operators any tips there?

[07:33] Rick Martin

I think, first of all, you know, there are things that sort of overlooked in terms of the benefits like, you know, finding a deal off market, sometimes these deals will be brought to you, it'll be brought to you off market in many cases. And in finding the deal off market, that's difficult. There's a lot of work that goes into that, you'll also be in a deal pre value, and you know, where you get equity going in. A lot of people are trying to invest, you know, off the MLS or what have you, they're basically paying retail. So there are things that get overlooked. But I think in terms

of the questions, one should be asking, you know, I think there's books out there about that. And you can pick up a book and find out the general things that you should be asking, you know, vetting the sponsor vetting the market, etc. But there's some things that have come in around it that investors are asking me now. And they just may not be aware of what it is like preferred equity, for instance, you know, you have preferred return and some people are getting sort of confused with Oh, I know, my preferred return is and you'd be like, no, it's actually preferred equity. And there's a big difference there. And you know, if there is preferred equity in the deal, you as an investor should just be aware that within the capital stack, the preferred equity is going to get paid before the limited partners. And if you're a passive investor, you're probably the limited partner. And then as you work down the stairs, actually up the stack, it's kind of counterintuitive. The general partners get paid last. But, you know, I sort of use the analogy of, you know, if a couple brothers went on, on deal, and they couldn't quite get all the money together, they got to get dad in there to help them out. And dad comes and writes a big check. And the agreement is, you know, I just want some cash flow boys. And as soon as you get this return to me, I'll be happy and I'm out of the deal. So the boys want to get dad out of the deal as soon as possible. And so Dad, dad won't participate in any of the upside, but he will get some cash flow, and then the remaining cash flow and the upside will be available for the limited partners and the general partners or in this case, the two sons.

[09:30] Whitney Sewell

So the dads the preferred equity, you got it. So I just wanted to clarify that sometimes I explained it like looking at a brick wall. And you know, the, if you push the wall over the ones on the top are the more likely ones to get broken. Right. You know, just a little more risk. As far as you know, going up that stack. You know, like you talked about any other questions that you're getting. Now, that may seem different than what you were getting a month ago or six months ago, or maybe that aren't asked too often, then maybe the passive investor listening should be asking

[10:00] Rick Martin

Refinances is sort of a big one. A lot of people, I'll just kind of, you know, use their home as an analogy of like, if you put, you know, if you, if you pull money back out on cash refi, you can get, you can get a return of your money. But there are things that people should be aware of when there's a refinance, they tend to sort of juice the returns. At that point, if you get a return on capital, you have less money in the deal. And that actually means you're getting less cash flow back, but your returns have actually increased. So just don't be too wowed by the double digit figure sometime, just really look into it, figure out what you want out of the deal. Do you want more cash flow? You know, maybe you're depending on a certain fixed amount, which is always difficult to project exactly. But once that refinance happens, those numbers will change. And also, just be aware that there's, you know, there's uncertainty, whenever there's a refinance, you know, we're all these based on projections. Right? And that's just one more parameter that you have to account for, like, what are interest rates really going to be, you know, three years from now? Is capital going to be available at that time? You know, we all think so we all hope so. But you never know. So those are just some things to be aware of, and know that there's additional risk involved. If there's a refinance written into the underwriter?

[11:18] Whitney Sewell

You know, it's great if we can do that, but don't want to have to count on that happening just for the reasons you just said, but you know, getting into a business like this, what about 80 mindset shifts that have had to take place for you to be successful in this business,

[11:32] Rick Martin

I think is different for everyone. For me, people said, you know, you got to read this mindset book, you got to read that mindset book, it's different for everyone, you know, someone might be motivated by put a picture of that fancy sports car up on their mansion or something like that. It's never been about that. For me. I'm more driven by time and just time freedom. And so what does that look like? For me, I want to have time with my little boys, you know, so it's most important that I can control my schedule, really. I mean, I remember days where I'd be leaving for work. And you know, the boys are so happy to run around, they're screaming, and everybody's happy. And then dad's got to leave for the day. And literally, you know, you're looking at sad little face every day. And you know, if I was lucky, I get home in time to have dinner or read a story. And sometimes I wouldn't, so that had to change. But in terms of overall mindset shift, for me, it was, I had sort of a creative background, where after I graduated from the University Of Washington School Of Business, I decided to pursue my dream of being a musician. And a lot of that time, you know, you're starving artists. And on the one hand, it's kind of nice, you learn how to be frugal, which is kind of a big part of like, the fire movement, right? Who does it financially independent, retire early, movement, but at the same time, it kind of teaches you to be okay, being broke. And, you know, being a musician, it was kind of all about me. And over time, as you know, my wife, and we had our children. And now getting into syndication. Oh, my gosh, you know, you're really looking out for a lot of people and looking into their best interests. So I just really had to shift my mind from being this kind of starving artist and being okay with it, from being this guy who's looking over a lot of people and a lot of interests and being a steward of everyone's future. Not to put too much pressure on but you do have to take it seriously got to be committed. And you also have to be passionate about it. So you're going to stay in the game.

[13:43] Whitney Sewell

No doubt about it. Do you better be committed and passionate about it when all these people are entrusting you with so much of their hard earned money, right that they could be putting somewhere else? But what instrument did you play?

[13:56] Rick Martin

Guitar, I write a lot on piano, I'm okay piano player. I'm getting my son playing piano. He's going to be much better than me. He's going to be a better piano player. He's going to be a better surfer for sure. And it's awesome. I was a pretty serious guitar player, we, you know, he had a good run at it. It was an exciting time in Seattle, actually. And we were on the cusp, but gave it a fair shake, had to change directions at 1.0. That's awesome. Well,

[14:21] Whitney Sewell

It's neat to know something, you know, a personal like that about someone or you know, where they got into this business. But you know, Rick, tell me a little about it, you know, from investing passively. And being an operator, what do you like to see as far as preparing for a downturn,

[14:33] Rick Martin

I used to be the guy, this is a while ago, where I'd be standing on the sidelines, you know, storing my money and waiting for the real estate Come on sale. I think 2008 really changed all that there was just so much money put into the market. And now I just constantly remain in the game. And it just really comes down to the underwriting you know, just having a few of those key rules of thumb. You know, in terms of you don't want to be overly aggressive in terms of rank growth. In fact, right now, with all the uncertainty, we're sort of underwriting 0%, rent growth, you know, you can talk about the exit cap and all that. And then, in terms of reserves, I always like to have a rule of thumb about 1000 per door, plus about one month's revenues, maybe even two at this point. So just conservative underwriting. And then of course, keeping all the lender reserve requirements in mind as well. And really, if you go down, and you check all the important parameters, all the key levers, if it looks good, and the deal still works, then its worth moving forward.

[15:43] Whitney Sewell

Rick, do you have any predictions that you can share with us that you see, you know, in just in the real estate market over the next six to 12 months?

[15:50] Rick Martin

Well, again, looking back, remember, 2017? Were like, Okay, get ready, here it comes, everything's going to be on sale, and just never happened. Right? It's just a different world now. And I think it's going to continue to be, I think, it's going to be competitive, it's going to be hard to find deals, but they are out there, you just got to stick with it. I think the only thing that's going to, you know, obviously, right now, the government's very involved, they're doing everything they can to not let us get into another 2008. Right. I think the only thing that's going to turn things around is for the government to let go a little bit, the Fed to let go and allow the economy to normalize. And once it does, and interest rates do start to go back up, then maybe we're going to start to see a change. But the next six to 12 months, I don't see that happening, they're going to do everything they can to keep the interest rates down. It's multifamily is a very popular asset. So the demand is not going to go away. And obviously, there's a great housing shortage. So I don't see a lot of change in the next six to 12 months. You know, there could be some people right now, they're in a little hot water from some loans. They had, you know, from six years back five, six years back. But as far as going forward, it's full steam ahead.

[17:06] Whitney Sewell

What about any daily habits that you are disciplined about that have helped you achieve success?

[17:11] Rick Martin

Well, I didn't used to be good about getting up early, but I'm getting better. I've heard some of the people on the show that get up incredible hours, I'm not one of those. But I do get up, I get up at a good for me, 5:36 is a good time, the best thing I could do is go for a surf because that's sort of meditation and exercise on one. That doesn't happen all the time. I don't always have that time. In fact, I always, it's probably a bad thing. But I always feel like okay, I got to get into my day. So but I do want to save that time. So I've started doing this called insight timer. It's a little app and has guided meditations. And some are just nice sounds that you can listen to, and really kind of focus in on yourself. And then others are actually people kind of guided in eastern meditation for those of us that are not great in the art of meditation, but there are times and it's a good way to start. And then I'll usually get some form of exercise. If I don't have a lot of time, I might do like a 1015 minute yoga and YouTube or, you know, I'll get on the stationary bike, maybe listen to a podcast, and then I'll have my coffee, which is the best part. I can't for that.

[18:20] Whitney Sewell

I agree completely. Yeah, the coffee. So what about what's your best source for meeting new investors right now,

[18:25] Rick Martin

You know, I'm really trying to, I always think, Okay, I'm going to lock in on one. For me, it's I've been connecting with people on bigger pockets, I think they're connected some of my stories and experiences. And then also some of the blogs I write, I'll post. And that's been my most consistent over the long run, I'll always try to include some of my personal experiences, and tell a bit of a story. And people seem to resonate with that. And they'll sign up for what I have to offer off my website.

[18:54] Whitney Sewell

Nice. So what about the number one thing that's contributed to your success?

[18:58] Rick Martin

I think it's just kind of sounds cliché, but just sticking with it. There are times where you're going through valleys where deals aren't penciling or brokers aren't calling you back your deal flows low. Or, or nobody's reading your blog, you feel anyways, anybody listening, and there's just these big moments in time where you feel like you're really not getting anywhere, and it's easy to get discouraged. But just keep telling yourself, you're going to get when one of these days and lo and behold, they'd happen, and they feel great. And they become bigger and bigger. So just sticking with it

[19:29] Whitney Sewell

Takes time to gain traction, right?

[19:31] Rick Martin

Absolutely. For instance, I have a YouTube channel now and it's taking time, but I know it's going to get there. You know, you just stick with it.

[19:38] Whitney Sewell

Nice. Well, how do you like to get back?

[19:41] Rick Martin

My wife and I used to do a thing where we would join a group of people and we'd go down to South LA and distribute sandwiches to the homeless. And we do that every Saturday. And it was great, but it kind of got a little bit too intense. After a while and there were times we felt like okay, maybe this isn't the safest way. So we stopped doing that I've done pro bono work for I do editing and art direction motion graphics out here in LA. And I do some pro bono work for a nonprofit called Global routes.org. And you know, other than that, in terms of charities, I have a soft spot for kids. So that's kind of where my focus is. And I give out a lot of free content.

[20:22] Whitney Sewell

Rick, a pleasure to have you on the show and get to know you a little better. And, and I appreciate you just really talking through the active versus passive thought process. I get that question often. And I couldn't agree more. I know just a few people who have been ultra-successful in real estate on the active side in single family or small muftis things like that, who would have earned more than if they had just invested passively, more times than not, you know, somebody that's dabbling, actively, you're going to lose, right? Or you're going to, you're not going to make as much as you could have just passively if you can account for all the time. So just grateful for you going through that even how your you know, your business partner. Life was threatened. It's hard to believe, but those things do happen. Did you want to say some?

[21:06] Rick Martin

I was just going to say, you know, there's no reason you have to do one or the other, you can be hybrid. And that's kind of the way I've done it. And I'll continue to do that I invest passively still, even though I'm active.

[21:17] Whitney Sewell

Now, that's awesome in that you also highlighted numerous things to ask the sponsor about preferred equity and refinancing some great pointers there. You know, tell the listeners how they can get in touch with you and learn more about you.

[21:29] Rick Martin

Yeah, so you can find me at fortressfederation.com. That's my website. You can reach out to me Rick at fortressfederation.com if you looked fortress Federation up on LinkedIn and Facebook and YouTube. I'm out there and if you come to the website, I have an it's called the quick start guide to investing in syndications kind of get you up and running quick and that's a free download. So and come grab that.

[OUTRO]

[21:53] ANNOUNCER

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