EPISODE 865

[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 Derek Alexandrenko. Thanks for being on the show, Derek.

[0:00:32.7] DA: Thanks for having me.

[0:00:34.4] WS: After years of building a personal real estate portfolio composed of assets valued at 33 million, Derek is now manager of the Hammerhead Build to Rent Fund. Focusing on creating multi-family assets using single-family dwellings resulting in great communities for residents and legacy returns for fund investors.

Derek, welcome to the show, looking forward to hearing just about this business model that you're operating and you know, your experience I think is general contractor, how that's helped you to do this and be successful at it. Let's jump right in, give us a little more about your background so we can better understand your ability to operate this fund and then let's jump into the fund and the model a little bit.

[0:01:15.1] DA: Sure, I started investing my freshman year in college. I had wanted to get my first property when I first graduated high school but found out I had no way of doing that, I didn't have anyone to co-sign, I didn't have any income. I went to college and got a job at the Home Depot.

I was reading all the how-to books and you know, as I got the work history and I was able to buy it that spring, my first home and then just kept on doing the same thing. By the time I graduated, I had three houses on the same street and a 27-unit over there in Baton Rouge and from there, I kept on buying, remodeling, Behr strategy, it wasn't called that at the time. I went through 2008 all those bumps and bruises from that but tons of learning and more recently, about five or six years ago, became a licensed general contractor.

Realized it's easier for me just to build these rental properties from scratch, get exactly what I want, more control over the finished product and the tenants like them better. Now we're putting together that fund model to just scale it up.

[0:02:16.2] WS: Nice, tell me, what were you going to school for and were you using – did you use that to continue or to start to build your real estate portfolio?

[0:02:24.4] DA: No, not at all. I was pre-med, I graduated pre-med, I did have a business minor though. I used that part much more than the pre-med part. When I went into college, I didn't even know –

[0:02:34.4] WS: Okay.

[0:02:34.8] DA: What to do. I always knew I wanted to be in real estate. I remember working out in my room, just doing sit-ups and push-ups in high school football team, watching the late-night TV shows, I think its Colton Streets infomercials. Selling his real estate course back then is on CD's and whatnot.

I never got the course but I was like, it got the wheels turning about real estate, there's got to be value there, how these people are buying it and able to buy more. How are they able to do the next house after the first one, I was always thinking about that and that just opened the door for me.

[0:03:06.3] WS: It's interesting, I just like asking sometimes to be able to talk about getting that real estate bug kind of in school, in high school, college and then how did you use that college degree to get where you're at now and if that happened or not, how that worked out but I would imagine you're grateful that you took the real estate route now are you?

[0:03:22.3] DA: Yeah, I mean, once you get in – I mean, I'm pretty much addicted to it. I love the opportunity that it provides and even remodeling the ugly properties and seeing something there and you could create something useful from that and then just building something from scratch.

It's just such a great space to be in and then as far as the things that it allows us to do with the freedom of our time whenever you do it successfully is really nothing like it.

[0:03:49.5] WS: Congratulations to you just having three home by the time you graduated. That's an accomplishment in itself that most will not try that early on so congratulations on making that happen, I'm sure that didn't come easily going through school at the same time.

Tell us a little about, you got your license, your general contractor license and then you started developing. Then you have a fund now, tell us about that timeline a little bit up to the fund and why have a fund.

[0:04:15.7] DA: I started doing that, let's see, five or six years ago is like I said, I started with just building one house and then I started doing two or four at a time and then eight and just last year, recently with COVID kind of hitting the breaks on everting and starting to regroup and pivot, I really felt like I was being led.

I could do more with the same business model to increase my impact. I could do more communities better for the tenants and then also on the back end of the fund, we plan on partnering with charities and doing some things there. I really feel like the time is right for me to use my experience and just go larger with it.

[0:04:54.3] WS: Tell us a little about, just so the listener knows you're doing a 506(c) fund so we can talk about it, you can advertise it, you can put it out there, you don't have to have that pre-existing relationship like if you're doing a 506(b).

This fund, you're doing a fund so obviously you can raise capital, investors can partner with you, you can develop more. Tell us the type of fund and you know, more details of the type of builds you're doing, what your plan is, how long is this fund going to last and what's your exit strategy?

[0:05:23.9] DA: It's a 10-year fund lifecycle, we plan on focusing on building single-family home communities from 100 to 200 units but they're going to be gated communities, they're going to be under multi-family ownership structure, we're going to do the asset management, we're not going to sell off individual homes.

It will be handled and owned just like the multi-family syndications but in the development space, our biggest hurdle is the land and the entitlement process, getting through the zoning, making sure you could actually build what you want to build on this track.

That's why we chose the fund model so that we could go out and have multiple tracks that we're working on, simultaneously, that way you don't have a project you're working on and you hit a brick wall and then all of a sudden, you know, you have to go back to your investor and say, "I'm sorry, we're just waiting for another six months."

We have multiple irons in the fire if you will and that's why we chose the fund model.

[0:06:17.4] WS: You mentioned like 100-to-200-unit single-family homes, you're going to build this community, even be gated. You then all will manage and rent these or then you will eventually sell them or how does that look?

[0:06:29.5] DA: I think the evaluation will always be higher as a multi-family. Just through the cashflow and appreciation under the multi-family ownership, the things that are so great about multi-family. Unless the markets – some of these markets go crazy, we have square foot prices like California, then it would be feasible to sell them off individually.

We always have that option because they will be individually entitled lots — but I do see at least in most of these markets were in the southeast and Texas that the multi-family evaluation will probably be the exit strategy.

[0:06:59.1] WS: You mentioned like land and entitlement process or some difficulties there, will you elaborate?

[0:07:05.7] DA: Land, they're not building anymore. You have to find it and you have to find someone who wants to sell it to you at a price that you can make the numbers pencil out because new construction, it can be, it's pricey. You're not buying something 50 cents on a dollar, you're building it from scratch, especially this year, that's what our main obstacle is now with COVID is such an over-prices of lumber and whatnot are really fluctuating on us.

You have to be careful whenever you're finding these tracks to make sure that you could put what you want on it because the local government, the zoning ordinance is they really have a huge stay in what can go there and you know, the neighbors, a lot of people want to control what's going next door so we had to kind of show them what we're doing and why it's a good thing for everyone in that area and then that community.

[0:07:50.3] WS: What's the timeline of that process, I know I've heard lots of people talk about it, I'm not a developer personally but just wondered about the timeline you found this piece of property. You're probably wanting to get it tied up pretty quick if it's something that's going to work for you.

However, you got to insure these things beforehand, right? I mean, you got to ensure that it's going to be something you can pursue that makes sense and that you can actually build your project there. How long does that normally take and what are some hold up's there or how you've accomplished, maybe give us some example?

[0:08:16.0] DA: Well, it could be a huge variation but in general, I'd say six to nine months but one of our first qualifiers is, there's some, we go in to those areas and meet with the local governments, kind of look at their ordinances to determine if we even want to try there.

We'll scratch some off of our list from the get-go to where we're not even going to try in those areas just because we know it will be too onerous for us to try. That eliminates a lot of it, we could be more familiar with their process and they kind of know what beforehand what we're looking for, what we're planning on doing there.

Then it’s – we generally try to auction the tracks first. Before we go out and purchase the land, we get a little further along in that process.

[0:08:54.9] WS: I wanted to go back too and ask you about – I know we talked about the timeline of the fund a little bit and obviously you said like a 10-year fund. How does that work with investors when developing a project like this as far as I’m sure, obviously they’re investing on the front end of development, they may not get a return for a couple of years, right?

What does this fund look like as far as the timeline of starting to build and being able to provide a return?

[0:09:17.2] DA: Right, well, we have it set-up with three different classes of shares, we have just a straight preferred share and then we have the equity shares, class-B shares. The equity shares are for three years, they get a higher return but it’s for a shorter period and they don’t’ have the equity upside that the other shares would have.

We’ve received – when we do these communities, taking three or four years, get them stabilized and then we would have a capital event when we either refinance or sell it out. That’s kind of the plan and each time we do that, even though it’s a 10 year lifecycle, we expect we’ll probably have some type of shot in the arm for those class-B investors. We probably wouldn’t return 50 or 75% like you might if you were doing a refinance under a normal syndication.

Because we want to keep some of it in the fund to recycle and because we’re going to be doing multiple communities so over this 10-year fund cycle, with a couple of thousand homes and over a 10 to 15 communities.

[0:10:13.9] WS: Nice, why not build multi-family as opposed to to a hundred or 200 single-family homes?

[0:10:19.9] DA: Cost, the commercial building codes, you can’t build those C and class-B properties that we love to buy as multi-family investors. That’s why they’re so attractive because you could purchase those but you can’t build them anymore. You have to put fire sprinklers, firewalls, there's so many new codes and they're good codes. They're just making everyone safer but it's very expensive, it's a whole different space. They have large developers that do that but they're much longer cycles on building those things out.

Their approval of process is even more difficult than we are in the single-family space. I also prefer the flexibility that we have. We can get individual certificates of occupancies. If we're building 20 houses, the market tanks on us, we could go in and pump the brakes and say, "Let's stop a while, we'll rent out these 20 and then we'll come back when we like things a little bit better."

If you're building a 200-unit building, you can't occupy one unit, you have to finish it out. I remember seeing that in 2008, we had some larger complexes being built where I lived and they sat for about a year and a half, you know, with the house rep blowing and just left up to the elements. We like to be a lot more flexible, especially with what's going on, no one knows what's going to happen.

[0:11:33.8] WS: No, that's a great point, that is a great point. You could get 10 built and then just put the brakes on for a while if you had to and get those rented hopefully. You mentioned earlier too, in a little different. Partnering with charities on the back end, how do you do that, what does that look like?

[0:11:47.4] DA: Well, with the cashflow that we generate because in the fund, I'm the original purchaser of the raw land, the entitlement process, the developer, the builder, we have a lot of streamline. There's a lot less hand changing of that asset where there's fees involved and every time it moves through that, it gets a little bit more expensive, everyone needs to get paid. Our cost are a lot lower per square foot and we think with the cash flow lot better.

Our plan is to locate two or three charities in that community and send out an email and newsletter to our investors and say, "Look, we vetted these, we like these charities, things are doing good things," and we'll kind of take a little vote and we'll partner up with them for that year and really just feed into that charity, that's what's great about this multi-family community, all these investors, they want their returns but they also want to feel like we're really making an impact because of the scale that we operate in.

[0:12:40.3] WS: I like that. You had mentioned that you all do on asset management, property management. When did you decide to bring all that in-house and why or you know, was there a time where you hired third-party?

[0:12:54.0] DA: We will be third-party as we get more of these communities, we're still smaller, still starting out so we're able to handle that. I mean, when I started out and just doing my single-family in my smaller multi-family stuff I manage them all personally. I never had a property manager so I learned all that firsthand, spreadsheets and just collecting rents and don't want to do that anymore but it makes you able to know what to look for and it makes it a lot easier once you get that experience.

[0:13:19.0] WS: What's been just the hardest part of development for you or the syndication business?

[0:13:24.1] DA: Hardest part of development would be the frustration of dealing with the governments, you think you have a great project and you really, you're pouring into it, you have faith in it and then they just go and poo-poo on it. It's just like, I'm doing a good thing, you know? This will be a great thing for this community and – but you have to fight that fight, you know? Eventually, you hope that you could get it to the finish line but it is a tough, frustrating process a lot of the time.

[0:13:49.0] WS: Is there a tip on how you've accomplished that or you know, improved that relationship to get something accomplished?

[0:13:55.1] DA: It's just putting in the work, you go and you start meeting those people because it's all about who you know and anything, really. Even more so in this space because they could really influence one way or the other because they're going to take a vote and if you can really influence those folks and get them on the same page, believing what you believe, that's really the quickest way and it's not easy.

That's why there's not every many in this space because it just involves work.

[0:14:17.8] WS: You know, you mentioned if the market turns and one reason you're doing the single-family versus a large multi-family structure because you can halt that, if something happens in the market and continue to rent or move along, what you've already got constructed.

Any other ways that you're prepared for a potential downturn in this type of business model?

[0:14:36.6] DA: Yeah, I mean, obviously, it's all about cost, we try to build these things at evaluation where we have close to 60, 65% breakeven so we can handle quite a bit of vacancy if we had to. In our experience, these newer units in, if we do our homework correctly, we haven't rented before they finished because we put in some bells and whistles, we make some ship laps, some of these things that people love.

We're capturing the folks that are either upsizing out of traditional apartments, they want to have their own driveway, their own little porch and also the folks that are downsizing, want to sell their house, they want to have something nice but they don't want to have all the upkeep so we're kind of capturing both of those.

[0:15:15.2] WS: What do you predict to happen over the next six to 12 months in the real estate market? What's your thoughts on that and as you're developing this business plan?

[0:15:23.2] DA: I predict it will be unpredictable. We have no clue and that's why with this model, that was our main focus is we need to be flexible and able to maneuver quickly. We're going to be spread out geographically so we're diversified in that respect but we also have flexibility with our lenders and with these projects to where we're not left out in the open if something drastic does happen.

I don't hope or foresee anything, I think we've been through 2020 and we all hope for good things this year but you never know so we just want to have that approach because there's still going to be things that we can't foresee.

[0:16:01.9] WS: Derek, do you have any daily habits that you are disciplined about that have helped you achieve success?

[0:16:07.1] DA: Yeah, I mean, first thing, the night before I have a little app where I just put in what I plan to do on a small scale. I get this one done, this one and because if you don't knock those things out, then they start to trickle over and before you know it, you have a whole mountain pushing up against you.

If you just take a few minutes, that's right before bed, just to lay out, these are the things I'm going to hit, make sure that they get done and kind of map it out beforehand, that really helps and then before you even get out of bed, I just lay there, say a quick prayer and just to make sure that I'm guided throughout the day, I think that really helps.

[0:16:40.9] WS: I like that and is there a way that you've recently improved your business that we could apply to ours?

[0:16:47.1] DA: Always learning. Regardless of what level you're at, you could always learn and this is the information age, there's so much at our fingertips now, you can learn how to do anything and really, you should because if you're not, someone else is and they're eventually going to come and take your space.

You have to always be improving yourself and improving your business and then the other big thing is partnering up with the right people. Every business is a people business and that's the number one factor that you build on is who you're partnering with or who you're working with.

[0:17:16.0] WS: What's your best source for meeting new investors right now?

[0:17:19.8] DA: Meet-ups, these virtual meet-ups have been nice and LinkedIn is always, you know, I think it is a quality platform.

[0:17:25.6] WS: Is there a way you're using LinkedIn to bring in investors?

[0:17:28.8] DA: No, it's all organic for me. We're about to price our doing more of that, which is getting everything put together but it is just all organic, small messaging and chats because really you get a lot of that spam and people don't like that.

[0:17:41.2] WS: Right, I meant to ask you too, is there a way that you have learned the ins and outs of operating a fund? You get that question often recently just like, should I have a fund right now and how did you learn the process of operating a fund to the point where you are comfortable doing it now?

[0:17:56.9] DA: I've read some of the similar books on capital raising and they get into that a little bit but really the teaming up with the good SCC attorney that could really guide you through the process and if it is only to fund really a syndication. There is some slight differences but if you are comfortable with syndication, you could easily do a fund. That is really what it is but the cycles are all different, some of the rules are a little bit different but it is just a different type of syndication.

[0:18:21.6] WS: Derek, I know we mentioned a little bit on the backend of how you give back but you know, I just thought you could elaborate how do you like to give back?

[0:18:28.8] DA: Yeah, besides what we're trying to do in those communities, really, it's my wife. That's her gift, she just sees what people need even if they don't mention it and she's like, "Can I go and do this? Are you okay with me putting this here?" And so I try to feed her because that's what she does to me. I am kind of oblivious to those types of things worrying about what I am worrying about. I just kind of empower her and she is great is that.

She picks a new a family or a set of people every week and she prays for them and then she does special things, you know surprises for them. It is really special seeing her working at that space.

[0:19:01.8] WS: Also, I meant to ask you the number one thing that's contributed to your success.

[0:19:05.7] DA: Faith. First, faith in my creator. I think that I am here for a bigger purpose and when you believe that, it really empowers you and then that gives you faith in yourself. I am able to purchase my first house without a partner, without parents, no co-signer and then from there just doing things over. You know, if you have faith in yourself, you really can do anything within reason. I can't grow to be seven feet tall and play in the NBA but I can learn most things.

As long as you focus and you're dedicated to it and put in the work, you could really do anything you set your mind to.

[0:19:35.7] WS: Derek, I am grateful to have met you and just you sharing that and how you give back as well. How you've had those properties in school. I just love that drive and just the faith and the ability to be able to go make that happen even while you're in school so that people that are listening that are younger right now who think, "Man, I am just not ready yet." You know, there are things you can do to get started and make it happen but also how you set you on the multi-family development route.

You've changed this business model for a way that it feels less risky and a way that you can make it happen and bring a lot of investors along with you at the same time and help them to build wealth and help create better communities as well. Thank you for your time being on the show. How can listeners get in touch with you and learn more about you?

[0:20:14.1] DA: Yeah, they could find me on LinkedIn, just search my name. I am pretty sure I am the only one with that last name so I am easy to find on there. They could email me at derek@hammerheadcap.com and they could go to Real Wealth Real Impact though but I also have a little website there where they can learn a little more about me.

[0:20:31.3] WS: Awesome, that's a wrap Derek. Thank you very much.

[0:20:34.2] DA: Thank you.

[END OF INTERVIEW]

[0:20:36.0] 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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