EPISODE 874

[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 Josh Ferrari. Thanks for being on the show Josh.

[0:00:32.2] JF: Yeah man, thanks so much for having me, we've kind of come full circle here. I've listened to your show a lot and so it's really nice to be on this end of the show now instead of the listening end.

[0:00:43.4] WS: It's neat, I'm hearing that more and more where guys and gals have been listening and now they're doing deals or they're growing their business and then they become a guest, it's really neat to see that happen. Welcome to the show, look forward to hearing more about your experience and your growth or your business and what you've done.

But a little about Josh. He's a multi-family syndicator based out of Mobile, Alabama with experience in raising private capital, locating, negotiating and acquiring value add multi-family assets and teaching others how to follow in his footsteps. His ability to raise private capital he's gotten him the title of primary capital raiser at over six million dollars raised in his three-year real estate investing journey.

Josh, welcome to the show, I know there's many that are listening that are trying to do the same thing that you have done and accomplish what you've accomplished in a short period of time

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and so I think it's important we spend a couple of minutes just to figure out a little about your background before multi-family syndication analyst, work through that just a little bit and then I do want us to dive into just the investor relation side and how you do that well.

[0:01:48.2] JF: Yeah, a little bit about my background, I'm an aircraft technician by trade. I do that, I still do that actually, still working full-time in aviation. I'm from Memphis, Tennessee. I moved down here about three and a half years ago to start my career as a technician. I always thought I was going to be in the W2 world for just ever, really. I was going to climb the corporate ladder, get my experience down here. Because a lot of people call [inaudible 0:02:13] a sweat shop, which is what I work at, and then eventually go work at like FedEx or UPS and a bigger company. Then, about six months after having moved out of my parent's house, moving down here, kind of starting my career, my dad calls me one day and tells me, "Hey, your mom and I are going to start flipping houses." I'm like, "What the heck? You guys are going to start flipping houses? Like first of all, I know you're not wealthy, where's the money coming from, how does all this work?"

I had so many questions to wrap my head around – first of all, the fact that they were wanting to flip houses and then how they were going to do that. After like a four-hour conversation, my interest was piqued and this, learning I could make more than my annual salary in one transaction was mind-blowing, like man, there's something to this.

I didn't think I wanted to do flipping at the time but I said, "Obviously there's something about real estate that I need to dive into." So started reading books, listening to podcasts like yours and BiggerPockets and a bunch of different other ones going to local real estate meetups, there was two that we had here in Mobile and one we had at Pensacola. Trying to learn as much as I could.

Then I got started in wholesaling, did that for about five or six months, really wasn't for me. I ended up not ever being able to close any deals. We had like eight or nine that we got under contract that we were trying to flip but never had anyone buy anything so we thought, "Well, we're kind of throwing money away on marketing, let's just save that and buy something." Because that's what we wanted to do anyway. That's what we did, we bought a fourplex about

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two months after that, we house hacked it and syndicated it. It's a very interesting model and I would not recommend it to anyone but it was, it was great experience and –

[0:03:57.0] WS: You syndicated it?

[0:03:58.9] JF: "Syndicated it," before I knew what syndication was, it wasn't the standard model of syndication. It was more just like, "Hey dad, I need some money to pay for this down payment." Because we did a 203(k) FHA loan on it so I had all the money for the renovations and everything else.

He just helped me with the down payment but he didn't get any quarterly distributions, he didn't get K1's, he didn't get any of that stuff, it's just like, "Hey, I'll give you a piece of equity and when we sell it, that's' what you'll get." That's how I structured it before I knew what syndication was and he was happy with it.

We actually just went full cycle with that deal and he ended up getting all his money back in like a 50% return after like a two-and-a-half-year period so it wasn't great but it wasn't horrible either. Great first experience so then fast-forward a little bit, we ended up – I ended up finding my business partner and we did a 21-unit single-family portfolio syndication together and then we were realizing obviously, multi-family is where we need to go. We need the economies of scale, we needed all of those properties to be in one spot so we could have property management, maintenance and everything else.

Then, fast-forward about another year, we found a third partner and now there's three of us. We closed a 42-unit multi-family apartment complex at the end of last year and we got another 34 units under contract before we closed that.

[0:05:15.5] WS: Nice, I am making some notes because there's some stuff I want to ask you about there. I want to back up just a little bit. The house hack, were you the one that was living there? Why would you not recommend that model?

[0:05:26.6] JF: Well, maybe it was a poor choice of words, maybe I would recommend it to someone if it makes sense for you and if you can get the financing right and if the deal's right. I

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think for my particular situation, just being that was our first deal ever, you know, first house that we bought as a married couple, first investment that we bought, first multi-family we bought because it was a fourplex. First renovation that we did, first house hack, it was like first everything. Just jumping into all of that at such a behemoth-sized deal for a newbie, it was a whirlwind of problems and it was a hundred-year-old house so already, we were buying problems right there.

And the 203(k) FHA loan was absolutely horrendous for us. What was only supposed to take six months to renovate took us a year and a half and a lot of that was because of paperwork and making sure that everything was – we had fire our first contractor and it took five months to fire the first contractor and get the new contractor signed in to all the paperwork and ready to go. We already had the second contractor before we fired the first but they couldn't touch the property for five months until the paperwork was done.

[0:06:40.4] WS: Now, give us a couple of things here that you would have done differently to alleviate some of those issues. I can relate to actually, my wife and I hadn't been married the first year or a whole year yet and we bought a house, we were in the middle of remodeling and bought a couple of triplexes and we're self-managing. Lots of brain damage there, I talk about it often. The first year of marriage, right? I would imagine, a similar situation, even though we weren't living there but give us a couple of things that would have helped you be better prepared, or maybe you and your spouse or that you would do different personally?

[0:07:12.3] JF: I wish I would have known more about the intricacies of the FHA program. The specific, the 203(k) FHA program as far as how the paperwork goes and what needs to be in line to move to the next step because I thought that I knew everything at closing after we had gone through all the steps. It took us about four or five months just to get to closing, which should have been a red flag right there, like, "Holy cow, it's going to be a lot of paperwork throughout this process."

I'm thinking, the contractor that we had, they had mentioned the idea of needing to fire someone and bringing someone else on but they hadn't stated the fact that it was going to take such a significant amount of time, they were just like, "Here's the process of what's going to have to happen," and I'm thinking, "All right, if it does happen, worse case scenario, it takes like a

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month. It can't be that bad." I also thought, like probably everyone else, that well, "I'm not going to need to fire my first contractor, they're going to be great. They're going to do me right, they're going to get everything done on time," you know?

The first contractor ended up tripling the timeline and doubling the budget on the first unit that they renovated. So I was like, "Obviously, I can't keep these people around, they're not timely and they could care less about my budget." It definitely – the paperwork side of it all, I wish I would have known the processes and procedures and the steps that were going to be involved because it might have veered me away from wanting to take that loan program and instead, maybe making it a legitimate syndication model or stopping and saying, "Hey, if this isn't something possible that we could do, maybe I need to buy a duplex instead of a fourplex. Maybe this isn't the right deal."

So just figuring a lot of those things out before just kind of jumping into it because my personality, I'm a very optimistic, like a go-getter, let's just go do it, let's not [inaudible 0:08:56] analysis-paralysis, let's not worry about the what if's. Obviously, we're going to have a little bit of conservativeness built into some things and definitely do some analysis but being that that was our first deal, there wasn't much analysis that I knew how to do, it's just like, "Yeah, looks like a good deal from everything I've ever learned. Let's just do it."

[0:09:15.9] WS: Okay, similar to me as well. It sounds like you would have educated yourself a little more maybe beforehand, before jumping in so you understood the process a little more and what to expect. Is there any kind of mentor involved, anybody helping you through that or was it just you trying to steamroll ahead by yourself?

[0:09:31.1] JF: Yeah, at the very beginning of that, there was no mentor. I had a couple of contractors that I knew that I hadn't met from my local real estate meet-ups that I thought were going to help me with this because they were who I brought along.

When we were kind of doing the initial underwriting and figuring out that this was the deal we wanted to get under contract and that we wanted to pursue. Then, none of those – I had like two or three of them that I knew and kind of trusted and none of them wanted to actually take on this deal. That's another thing, that should have been another red flag of, "Why don't they want to

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take on this deal? What are they seeing that's going to be such like a behemoth about this that they're unable to handle it?" I guess, it would be that.

[0:10:13.7] WS: Okay, I want to move on because we got a lot to cover. I want to get to the 21 unit, your first syndication, you met your business partner, give us a couple of key things to help you to get to that first syndication and what was your role in that?

[0:10:27.0] JF: It's funny. The 21 unit was yes, the first legitimate syndication but I kind of came in on the back end. I met my partner actually through BiggerPockets. He reached out to me and we met at a local coffee shop here. He lives in Gulf Shores and I live on the west side of the bay at Mobile. We met up at a coffee shop and the initial –

[0:10:47.3] WS: How did he reach out to you or why did he know of you to even reach out? Just because you all live close and he looked you up?

[0:10:52.7] JF: That's what I would think. I think he just found me on BiggerPockets and saw that I was in Mobile and that my tag line was like that I was trying to be a syndicator and trying to be in multi-family and he's like, "It's super cool. I'm working on some stuff and that's kind of what I'm trying to get into," and so we just met up but the initial purpose of meeting up was just to kind of know each other and learn more about other people in the area that are doing these kinds of things.

There wasn't any thought, at least in my head, initially, of like, "This could be my business partner." It was just like, "Yeah, just be cool to meet someone else." Then it wasn't until a few months after that that he had this 21 unit that he had gotten under contract and that he was primarily working on and raising most of the money on that he was like "Hey, how'd you like to come on and kind of fly under my wing I guess and kind of see how everything goes? We'll kind of see how we work together and you can maybe help me raise a little bit of money and that will be –"

[0:11:51.1] WS: Had he syndicated before? Had he done this before?

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[0:11:54.2] JF: He had not done a big syndication before. He'd bought – he'd done a lot of flips. He flips a few houses a month, he had a lot of experience in construction and contracting and just like real estate in general but he hadn't done any large-scale portfolio or raised –

He might have raised a little bit of money here and there for flips but he had never done any legitimate syndication. We both kind of were just jumping into this like, "Yeah, you've got way more experience than me even if it's not syndication specific and I'd love to help you out and kind of see on the back end how all this stuff works," and so, that was kind of how it happened.

I just came in on the back end, I didn't really know a whole lot. He helped me just like look at the numbers and look at the deal and that allowed me to kind of see how things were underwritten and what kind of made sense and then he actually structured the syndication differently than most where they weren't equity partners, they were debt partners.

[0:12:53.5] WS: Okay, yes.

[0:12:53.4] JF: All of these investors come in and they only got a piece of debt basically, that once they were paid off, that was it. I was thinking to myself because all I knew at that point about syndication was that they had to be, or what I thought, they had to be equity partners.

He's like, "No, we're going to keep all the equity and they're just going to be debt partners." I'm like "Man."

[0:13:15.2] WS: Did you go – did you have a lender involved as well or did you find investors for the debt, for the whole thing?

[0:13:19.6] JF: We had a lender involved as well.

[0:13:21.5] WS: Okay, then your investors would kind of have a second lean on the property, is that accurate?

[0:13:27.5] JF: Yeah, kind of like a second lean position and I wasn't really able to bring much of any money. I might have brought like $20,000 to that deal from my parents or something. He

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brought, I think it was another two or three hundred thousand he brought on his end and I was just dumbfounded that he could even raise that much money at the time and that all of that stuff was possible. It was all so new to me that I was trying to add as much value as I could but it was hard because it was a first for everything.

[0:13:55.8] WS: Who were these investors? I mean for them to be willing to invest and just have debt. It would be debt investors. What was their projected return and who are they, that's willing to do that versus investing on the equity side?

[0:14:10.9] JF: Yeah, he had the closer, obviously, he had the closer relationship with these people so what I know of them is just that they were close people that he knew already just from having grown up and he had already been in real estate for about a decade at a time, doing mainly the flips and stuff. He had that track record of success and I guess he obviously had met a ton of people coming up from there to where he was then of just meeting people and it was all different kinds of people, you know.

He had a lawyer in there, he had his real estate agent was in there that he does some of his flips with. She was rolling some money in and he had some guy that he knew from way back when because he was born and raised in the Mobile Gulf Shores area. He just I guess knew everyone naturally from growing up here. He knew some guy that started a bank and had a bunch of money that was willing to be a debt partner and it was just all of these different people that I'm like, "How do you know these people?" It just came from age and experience and time.

[0:15:13.2] WS: He had built a network it sounds like. He had built a network and that helped you all to close these first deal and so I want to jump way forward because I don't want us to run out of time before we get to some details now that you have learned on the investor relation side. Obviously, that's such a massive part of our business. It is something I spend just a ton amount of time on. We have numerous team members that are just focused on investor relations so I understand just the need for that and, you know, we stress it so much personally.

I want to hear some things that you've learned. Some things you do differently now. Obviously, you were learning then and you've learned so much since then to be able to raise quite a bit of capital, or a lot, in a short period of time. Tell us, get us started there, some things you've

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learned, some things you do now that you've learned to help speed this process up for the listeners as well.

[0:15:59.8] JF: Yeah, I guess I will start with kind of building those relationships with investors and then getting them to agree to invest and then keeping that ongoing relationship after kind of that onboarding process. Initially, getting these investors, growing that network. What we did, what I did July of last year 2020, I did a "30-day to 500k" money raising challenge. Previous to that I had only raised about $100,000 and so I never really saw myself as much of a capital raiser. I always thought I was just kind of handle investor relations, like communication side of things just because I love talking to people and then also maybe some acquisitions and financial analysis. That was just going to beat my niche and my role on the GP team.

Well, I started this challenge. It was a $100 to enter. I was like, "You know, worst case scenario I'll pay a 100 bucks, learn nothing and lose 100 bucks. Did I really lose anything?" I'm going to enter this challenge. I'm going to see what it's all about.

First day, we got a video every day and he said, "You're going to go Live on Facebook every day for the next 30 days." Man, I was so scared. I hated social media at that point. I had the podcast, my podcast that I run, Creative Capital, but it's different. It's different on the podcast because it is just you and one other person and so on the Live video, I'm like, "Man, I've got a thousand, 1,500 friends. They can all see me. What if I trip up? What if I don't say the right thing?" You know, all of these thoughts that are coming to my head like, "What am I even going to say for 30 days to these people?"

And then the video was just basically telling you what you needed to say. You need to be authentic. You needed to just be yourself. Don't always talk about the how to's of real estate like, "Hey, you can make a bunch of money. Hey, I've got this awesome deal. Hey, give me money. Hey, IRA's, 401(k)'s." Don't always talk about that because you're going to turn people off. They're going to be turned away from your constant marketing, like guerilla marketing that you're doing for your social media. So, talk about yourself, talk about your family, your faith, your hobbies, what you like to do, your dog, your kids, you know, the fact that the AC broke in your house.

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I had the randomest, most weird Facebook Lives and the ones that I was so not expecting any response, I was just doing the Live for the sake of needing to do it for the day, those were the ones that got the biggest response. Those were the ones that people were like, "Oh yeah!"

Like one video, we were in the fourplex, a hundred-year-old house. We're on the second floor, no insulation, heat of the summer, our AC goes out. It's like 90 degrees in the unit. I'm like, "Guys, it's 90 degrees in here," and I'm like flipping the camera to the thermostat and everyone's commenting like, "Oh my gosh, that's horrible," or, "I had that happen to me on a flip house," or, I couldn't imagine and all the stuff. I guess it was just the idea of being relatable allowed all these people to begin liking me and know, like and trusting me and then the biggest thing with the live videos that we did was people had no idea what I was doing. There was a ton of people that I followed that didn't even know I was an aircraft technician and I had been an aircraft technician for like three years at the time. They're like, "I didn't even know you're in aviation. I thought you were doing something else like in the military or something."

Because that was originally what I was going to do when I was initially going into college and because I just had never gotten on social media and just told people. I just didn't care; I didn't really like social media. Just letting people know what I was doing and the fact that I was investing in multi-family and that there were these opportunities, people started reaching out to me wanting to know more about it and more about me.

Fast forward to the end of the 30 days and I was able to actually raise six million dollars in 30 days of this money raising challenge where I thought I wasn't even going to get to 500k and then here I am at six million, I'm like, "What the heck just happened?" Obviously, I had some kind of skill here to raise money so maybe that's my niche. Maybe that's where I need to go so then –

[0:20:06.4] WS: Tell me, I want to dive into it a little bit because you did, did somebody else challenge you to do the 30-day challenge on Facebook or even the 30-day to 500k, was that somebody else challenging you or is that just something you came up with?

[0:20:18.3] JF: Well, it was someone else. It was a guy named Bill Allan. He actually was beta-testing this idea of this challenge that he wanted to do and so I was a part of that.

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[0:20:26.7] WS: I know Bill. Bill has been on the show.

[0:20:28.4] JF: Yeah, I was a part of this beta group and we – I ended up raising the most amount of money in the 30 days and so he had me create this like commercial for him. Then he posted that on Facebook and that got 25,000 views and I got even more traffic from that and so he was the one that did the challenge and posted it on Facebook and I'm like, "Shoot, I'm going to try it."

[0:20:50.2] WS: What were the key things there to raising six million dollars in 30 days? Was it the Facebook Lives and then people were connecting with you and you following up? What was that process?

[0:20:59.3] JF: The absolute number one key thing, well, we'll say there's two. The first one was the Facebook Lives. It was definitely getting out there and getting people that you already kind of know, because they're already following you on social media, getting them to know what you do, getting them to know more about you. Talking about personal stuff and just everyday life and not always business, business, business.

Out of those 30 days, I probably talked five or six of those days specifically about multi-family real estate and how you can get into syndication and the fact that you can invest through 401(k) or something like that. Every other day was just randomness, complete random personal-ness. And so that would be number one.

And then number two, I was able to go, probably through about 25 to 30 different investors, I probably raised about a million dollars. Then from a million to five million was strictly referrals, strictly asking every person that I talked to, at the end of the conversation, instead of ending it with pleasantries like, "Hey, it's been a great conversation. Thank you so much for considering joining us. You know we'll definitely stay in touch and I'll keep you updated with any deals we got." Something like that, instead of ending it with that, I ended every conversation with, "Hey, is there anyone else that you might know that might be interested in an opportunity like this?"

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More often than not, probably 98% of the time people were like, “Yeah, I do know someone,” and it wasn’t just the people that had agreed to invest with me either. Like the people that said, “Yeah, I have 25,000 or 50,000 or whatever to invest. It wasn’t just those people that had it first. It was the people that the timing wasn’t right or no, they weren’t interested in real estate at all or yes, they were interested in real estate but maybe they needed to build up their capital stack or the deal wasn’t right, you know, whatever.

Those people that were saying no at the time also had referrals and so then, you talked to that person and then that person has a referral and you just – it’s like this endless referral network every time you talk to the next person and you always want to make sure that you got a warm introduction because you could get the referral, they could give you their phone number and then you call this person up and you’re like, “Hey, so and so told me you’ve got $50,000 to invest in real estate, you know, how’d you like to give it to me?” That’s not going to work. That is just totally not going to work. I needed a warm introduction of either all three of us getting on the phone or some kind of Zoom call or an email introduction that just kind of eased me into that person’s life so that I could take over from there and that’s kind of how that conversation started.

So the biggest thing that got me from a million to five million was actually, it was a few people but one guy in particular had three million dollars and it came from a referral. Just asking one guy that had about $50,000 to invest, he was like, “Yeah, I know a guy. I think he does deals. He’s been doing deals a while and so on and so forth. He’s in the oil and gas industry or something,” and I talked to the guy and at the end of the conversation, he’s got three million. I couldn’t even fathom that that was a number that people just had available to invest and it just came from asking.

[0:23:57.6] WS: Wow, no that’s incredible. What great value you’ve just provided Josh. Are you willing to come back and do the second segment to this because I feel like there’s a lot of value here, are you open to that?

[0:24:08.0] JF: I’m so open.

[0:24:08.8] WS: All right, to the listeners, so we’ll call this part one and we’ll do the part two to this as well because this is – I mean this is perfect content for so many of the listeners just

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understanding how you did this. I think it's worth doing a second show on this and I have a bunch more questions I want to ask you and so thanks again just for your time. You'll see part two to this tomorrow [blank 0:22:27] and the best way to do that but then like you said, you'll be back tomorrow for us to finish this conversation.

[0:24:31.7] JF: Okay, yeah best way to get in touch with me is you go to our website, ferraricapital.com. Got a monthly newsletter we send out. You can go to our partnership tab at the top and sign up for that. You'll be updated on any deals we have as well as get the newsletter. We also got a blog that we haven't been super up to date with but it does have a lot of previous blogs on it. What I am up to date with though, on a weekly basis is our podcast, Creative Capital. It's on our website. It's on Apple, it's on Spotify, anywhere you watch your shows. Feel free to check out our podcast and also social media. We've got a YouTube channel that's got the video versions of all of our podcasts, so feel free to go check that out at Ferrari Capital or you check us out on Instagram, Facebook or LinkedIn. LinkedIn and Facebook is just Josh Ferrari and then Instagram is Ferrari Capital.

[0:25:18.5] WS: Awesome Josh, that's a wrap.

[END OF INTERVIEW]

[0:25:20.8] 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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[0:26:00.9] ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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