EPISODE 927

[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]

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Whitney Sewell: This is your daily real estate syndication show I'm your host, Whitney Sewell. Today our guest is Vick Mehta. Thanks for being on the show, Vick.

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Vick Mehta: Thanks for having me, Whitney.

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WS: Yeah, Vick is a serial franchise entrepreneur, with a passion for real estate. He has been investing as an LP and now is running Investdia Capital, a syndication group focused on retail investments. He believes retail is not dead and it's going to share what to look for when identifying quality opportunities. So Vick, welcome to the show. It's a pleasure to meet you. I know you mentioned before the show you've been listening or for a long time, so it's neat to see people coming on the show who's been listening for a while and. I'm looking forward to really getting some kind of an inside scoop on retail. You know, your experience in that space and just what's happening right now. Give us a little background. I know you went from LP to now running your own syndication group. So, give us a little background there so we can understand that and let's dive into retail.

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VM: Yeah. Actually, let me take a step back. Whitney, you know, I've been in retail my entire career, focused on the wireless space, been fortunate enough to be a franchisee for a few different brands and really got to know the ins and outs of what makes a good location work, what doesn't work. And then, you know in 2008 when the market crashed, I had some opportunities to pick up some of the properties that our stores were located in. And that's where I really caught the bug for, for real estate. And you know, ever since then I've been looking for the value add opportunities in the retail space which is plentiful. Last year, I was able to get a group together to purchase a property, and more now in the GP role and continuing to grow in that role. You know what I'm finding is that and especially when I listen to shows like yours is that, you know, there's a lot of negativity around retail. There's a lot of concerns about what's going to happen to the sector. And you know, I'm here to say that it's not dead. By no means do we think that retail is going to go away. It's shifted, it's changed. You know, one of the focuses that I have is I look for a lot of retail centers that have medical users in them, whether it's dentist, you know optometrist, chiropractors, whatever it might be, but something that you just can't do on the internet. And that's been a real, real value add for us in finding those type of users and continuing to fill vacant spaces with medical users is kind of the the way that we're going with this.

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WS: So as you say, the biggest reason you got into retail is - because you already had some small businesses in retail and retail spaces so you understood that type of real estate, and maybe what that tenant would look for as well.

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VM: Yeah, absolutely. That's why, you know, I was able to actually fill some vacancies with my own businesses, which you know help propel the centers that I was buying back in 2009 2010 that were vacant. You know, we put our own store in there and all of a sudden phone will start ringing from other users that would want to take up space so we kind of just help accelerate the - bring life back to the center, let's say if you will.

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WS: Nice. Well, let's let's dive into retail in general a little bit. Maybe you can speak to that change you are talking about. You mentioned it's not dead, but it has shifted. Can you just speak to that in a little more detail?

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VM: Yeah, and more specifically I mean let's be clear, I'm not out there buying 1 million square foot shopping malls, you know. So, I have some concerns with that space as well. But you know when you start talking about an Outland Center to a grocery chain or to a Walmart, there's always going to be a need there. There's always going to be internet-resilient tenants or pandemic-resilient tenants that require space. Like I said, the medical users in particular are one that stand out. But then there's also retailers that people just can't wait to get their Amazon package, let's say. And they need something right away. There's always going to be a need for that retail space.

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WS: Okay, so, you know, so those spaces you're looking for, you know - Are you mostly looking like next to a Walmart or next to something like that? Can you show us or help us build a vision of the kind of location of where your retail is or your ideal piece of real estate in retail?

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VM: Yeah, absolutely. My average building size right now is about 11,000, square feet. It's in an outline of a Walmart. It's become a destination location for the community that it serves. So, it may have users such as hair salons or nail salons in it, and then again you know maybe 25, 30% of the users might be local, some sort of medical users. Like dentist, for example, is one that really stands out. So that's kind of my niche. And then the other piece that I like to look for that where we could add value for our investors is an opportunity to add some tenants in it. So you know maybe the building's 90% occupied, 85% occupied. We've got great cash flow. We're certainly able to cover the debt. We're able to pay a healthy return to our investors and still add value to where we can turn the property around.

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WS: Could you walk us through a little bit, the listener and myself, just thinking through, 'Okay we see this piece of retail real estate for sale. Maybe it is next to a Walmart or next to something like that.' Just thinking through like the comp process and, you know, determining the value, maybe what you could possibly get there. When thinking through something like this you don't you don't know what your tenants are going to be maybe at first if it's vacant, right? Could you just you walk us through that, just a few steps of that process so we could get a better understanding, just know maybe upfront, maybe the napkin-type underwriting for a property like that. How do we do the first pass on on to ensuring it's something we want to pursue or not?

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VM: Yeah, I mean typically, we're looking at the cap rates to start high level but then once we start diving in, we want to see what kind of leases we're looking at, what kind of term is left on the leases, and more importantly, who's guaranteeing those leases. So if they're corporate bank leases like the Starbucks, of course, that puts you a little bit at ease. But then if you're dealing with a mom and pop, maybe a franchisee of a national brand, you know, what's their experience, how many locations do they have. So diving into each individual tenant would be key because yeah, we're not trying to go out there and then you know have people vacate and then we have to backfill the spaces. We want to buy centers that have a steady track record. Again, when you're looking at the building itself, obviously the surrounding businesses help like we talked about the Walmart's, but then also the access to the space. How easy is it to get in and out of the center? What's the visibility like as you drive by it because that'll help determine the success of your tenants and it will help determine how long they're going to be able to stay and will, you know, ultimately determine the value of the asset.

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WS: I know we briefly discussed it, but I wanted to ask you specifically, you know, the ideal piece of retail real estate right now for you. Who would be that tenant? Briefly, what would be the location? What is that ideal piece of retail real estate that you see that has the least amount of risk?

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VM: For me, ideal would be 40% occupied by medical users, especially dentists, there's you know urgent care facilities are taking on more and more space in retail centers. And then from there, national name brands, ideally, would be the best fit for what I look for. And then, on average about 15% of vacancy I actually like because I like to help pick out you know my own tenants that I want to see in there and that's what adds value to the building.

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WS: So you're saying that there's value in actually having some vacancy so you can pick that next tenant?

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VM: Yeah, absolutely. I mean I've been able to build some great relationships with some brokers here that represent the tenants that have national name brands, a lot of franchisees that are looking to expand. So, being able to go in and add value with them is what really helps me provide a return for my investors.

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WS: Nice. Well, I was just thinking through some of this. I want to back up a little bit, I want to come back to our conversation right now but I wanted to back up and say, maybe you could shed... I'm sure there's plenty of listeners that are thinking, 'Well, what about through the pandemic, through last year? What are some of the, you know, some of the things that happened to retail? Maybe your property specifically. Anything you didn't expect or anything that we can learn from?

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VM: Yeah, I mean you know with our restaurant users in particular, we did have some rent deferment that we had provided, you know, working with each individual to help them get

through it. And you know, we're fortunate. Everything's been paid back and you know, everything has worked out great. So, we got through that just fine. I can't think of one space that vacated because of the pandemic. So, everybody seems like they're doing well and as long as you work through it and you know, are able to be a little flexible, you can get through things like that.

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WS: Nice. What a blessing that everything was paid back. What do you, I guess, connect that to? Is that by having great tenants or a specific type of tenant? Or some way you are prepared ahead of time? What was that?

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VM: Yeah. I mean I'd say that the business operators themselves we're good operators at what they did. I'll say this, I wouldn't go in and bring in a new tenant that's a startup, let's say, you know, whatever the business might be. I like to see people that have some experience in the space that they're in. So you know, I'm fortunate where our tenants that are local operators had good experiences and were able to weather through the pandemic.

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WS: Nice. Okay now I just, I know there's people wondering, right? Well, what happened during that time? And how did you get through that? But that's an amazing outcome for sure.

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VM: I think the key is the flexibility, right? If you draw a hard line and say, 'Hey the lease is the lease and this is what we're going to hold you to,' then you're going to have problems. That's where you're going to see the vacancies. But if you're flexible and able to work with them, and you know, deferment was the buzzword of 2020, and it's worked out. And very quickly we were paid back by everybody.

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WS: And now you've built probably a much stronger, even stronger relationship with those tenants who are probably more loyal to you as well, I would hope.

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VM: Absolutely.

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WS: So, what about... Let's go back to the improving of some of those properties. Any examples that you could share? Just some things that you've done to improve the properties, increase the return, those things.

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VM: Yeah, absolutely. Actually the last acquisition we just closed on, we're able to take a space that was just too large for an average user. So, taking that space, dividing it up, taking it to the market into divided smaller spaces. And I've already got LOIs for both of them and this is we're talking within 30 days. So we're able to fill the spaces much quicker by being able to work with tenants and kind of build them to suit their needs. So, that's one way we've been able to add some value to the building right away.

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WS: That's awesome. Yeah, thinking outside the box a little bit. And what about the type of returns investors should look to see, you know in retail, or maybe even it is the deal structure in general versus you know multifamily opportunity?

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VM: Yeah, one of the big things, you know I want to touch on when you talk about what we do in particular is the cost segregation study. That's been a huge win for our investors. And what we're seeing is with that accelerated depreciation, I mean, they're able to write off so much of their investment instantly, especially this year with the changes that came out in the Cares Act. Costs seg studies, in a way, that's depreciated. So that's been a huge win. I mean, a lot of my investors are more interested in that than they are in the return. So, you know, they have a huge tax base that they need to worry about. So, this has been a way for them to help offset some of that.

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WS: Nice. I always say that that is a first world problem and a a good problem to have, right? We all have to pay taxes but it's a it's a good problem.
So, you're needing cost seg studies. No, that's awesome. What is the typical hold period for a retail investment like that?

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VM: So mine is typically forecasted at seven years. So, what you're seeing is that's when all your tenants are going to be in some sort of option periods and they will have exercised their next renewals etc., and they'll still have three to five years left on their term. It's a good time to bring it back to market to sell.

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WS: Nice. Are you doing dual class structures, anything like that like we see in multifamily?

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VM: No, no. I'm only doing one. Currently, I've been pretty fortunate to be able to raise capital pretty fairly easily so I haven't had to get into that yet.

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WS: What are some of the biggest objections, and maybe even, you know, kind of things that aren't true that people believe about retail? Or why maybe investors are not investing right now? And maybe it's just a lack of education. But, you know, anything like that you could share.

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VM: Yeah, I mean it's just what you see in the media, right? Retail's dead because they're showing the big boxes moving out of the big mega malls. And that's the impression that everybody has. But, you know, I think the key is you got to look at retail and break it down into different sectors within, within itself, right? Say, 'Hey, yeah, there's a mall. I'm not telling you to invest in that, but then there's your neighborhood center that you go to on a regular basis. That building is not going anywhere. Those tenants are not going anywhere. You rely on them, they rely on you and that's just the way it's going to be. The landscape of the tenants might change. The type of users might change, but that building is going to stay there and that building is going to continue to be successful.

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WS: What was the hardest part about going from LP to GP?

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VM: That's a good question, actually. So, I would say, I'm lucky because I did have that retail background that I think my investors have some confidence and that I know what I'm talking about when we're looking at buildings and spaces and what's going to work and what's not going to work. But I would say just, you know, being more cautious about staying organized and etc. I mean, when you take an investor money into that, to me, that's an awesome responsibility and I want to make sure that I'm doing things right and, you know, making sure that I'm providing the right information. So, I'm looking at it more as like my role has changed to be more of an educator now, and teaching people about not only the sector but you know, what investing in these passive syndication deals is like.

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WS: Any more tips around how you did that, how you gained their trust in seeing you in that role?

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VM: I actually got some good mentorship from guys that I did deals with. There were GPs in the deals that I was an LP in. Got some great advice from them and I've kind of utilized that. I've also relied a lot on my resources, such as my CPA or attorneys and just really learning everything, you know, from a from a global perspective of all the different aspects of what it

requires to be in this role and taking that information and being able to share that with everybody.

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WS: I meant to ask you earlier, are you investing locally to you or is it nationwide?

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VM: So, I believe in sticking with markets, you know. So, I don't want to just go out there just to do it. So, right now most of my deals or all of my deals have been in the Midwest. So, Illinois, Wisconsin, Indiana are the states that I'm very focused on.

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WS: Is there anything you would have done different on the first deal now that you know what you know?

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VM: What would I have done different? I would have put more of my own money in it because it was such a great deal. So, you know, I believe in investing my own capital in it. But, you know, I wish I would, you know, put more and more of my own in there. It's probably what I would have done on the first one but I'm real happy with it. And, you know, I believe in hitting a home run for investors and that's what I want to do.

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WS: When purchasing, you know, a retail piece of real estate, how do you prepare for a downturn like a pandemic or something like that? What are some tips on ensuring that you can weather the storm like that?

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VM: So, when I am underwriting a deal, a couple of things that I'm looking at when we have the vacancies: I'm making sure that we're budgeting the proper amount of money to backfill that space. That includes tenant improvement allowances, that includes broker commissions, and

having that there. So that's completely set aside from the reserves. The question you're referring to is, I mean, I really believe in having a healthy reserve. I would much rather offer a less of a return and have a healthy reserve versus having to go back to investors and doing a capital call. So, I plan for at least a six month reserve for all expenses if the building where to go completely vacant, which we know that's not going to happen. So, that's how I prepare for that.

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WS: Awesome. I could not agree with you more. It's not very often that I hear an operator that will say, you know, six months or so where the same way or more. I agree. A slightly less return for better sleep for, you know, seven years in your case. It's so worth it to me and, I felt like, to our investors also. What about... do you have any predictions just for the real estate market over the next six to 12 months?

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VM: Yeah, I mean you're going to still see businesses growing in this sector. And like you said earlier, I think it's just going to be a shift when we talk about retail and the type of users you're seeing. You know, more and more important, are going to be buildings with drive through, with outdoor seating capabilities. Things like that are going to become more and more important but that maybe weren't as focused, you know, previously. But I think we're going to still see continued growth. Here in the Midwest, you know, one of the reasons I like this area is just the cap rates are just so much better than what I see across the country. So, you know, that'll continue to sustain I believe and I think it's, you know, still a bright future for the retail sector here.

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WS: Vick, what are some daily habits that you are disciplined about that have helped you achieve success?

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VM: I've gotten a lot better at writing down a task list on a daily basis and just attacking that list every day. That's not something I used to do previous to this role that I'm in. But I found that it really helps me stay organized.

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WS: Is that something you do on a paper, tablet? Is that something you do electronically? How do you do that to stay organized?

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VM: Believe it or not, I have a planner. I have a planner that I use a pencil to write in. So old school. I mean, it's just worked better for me and I carry it around with me everywhere I go. And, you know, as things come up throughout the day I'm just writing it down and really attacking that list.

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WS: As long as it gets written down that things can happen, right? At least it's documented one way or another. What's your best source right now for meeting new investors?

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VM: Referrals through friends. That has been key. So, this whole business started out just taking investments from friends and it's grown from there. And, you know, I'm actually in the process of doing my fourth deal right now, and I continue to see just referrals coming in and meeting new people through that.

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WS: Yeah, that's incredible when you start to see that happen. Ad you know, as the listener, if you've only done one deal or haven't done a deal yet, it takes a while before that starts to happen but but is incredible. It's one of our largest sources now as well. So it's just neat to watch that over numerous projects. What's the number one thing that's contributed to your success?

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VM: I would say just the experience that I had early on in my career. You know, I've worked for some really good people that have put me in some roles that have allowed me to learn a lot about being a retail operator, learn the business from the inside and that's what's helped me... contributed to where I'm at today.

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WS: And how do you like to give back?

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VM: Actually, there are some local shelters that we like to partner with. That's something that I really believe in. And because I've been in the retail space and being a multi-unit operator, we've been able to scale quite a bit in fundraising efforts and give back to them through our businesses.

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WS: Nice. Well, Nick, pleasure to meet you. It's nice to know some more people in the retail space as well, and I just appreciate you just walking through numerous parts of retail right now that...It'd be great for all of us to be aware of and thinking through how it could be a great business model for many of us that are in this space, but oftentimes we've just kind of shut the door on it, right? Thinking that it's dead, thinking that it's something we need to run from where there could be some value there. It could be a big opportunity that we're just glossing over. And so grateful for you know just your time today and sharing that with us. How can listeners get in touch with you and learn more about you?

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VM: I would say just give me a call. That's the best way to get a hold of me. So, 630-777-0205. I'm happy to talk to anybody anytime, share with you my knowledge or even just bounce ideas anytime.

[END OF INTERVIEW]

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[0:18:46.0] 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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