

EPISODE 967**[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 Alex Babayev. Thanks for being on the show, Alex.

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Alex Babayev: Thank you very much.

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WS: Yeah, Alex began his real estate career at the young age of 21 when he bought his first condo in Atlanta. Ever since the sale of that first property, Alex has maintained a passion for buying and selling real estate. And, has never looked back. Currently, Alex specializes in value-add renovations, maximizing client ROI, and also works with investors from across the country who are curious about investing in real estate, but who may not have the time, experience or knowledge, but do have the capital to invest.

Alex, welcome to the show. I'm looking forward to this conversation because you have created a method for yourself to really buy and get into real estate and scale when maybe syndicating may not always be the answer, and you found another way in this business to make it happen at a large scale, and be really good at it. So, we welcome to the show, looking forward to hearing about that. Give us a little about that background, and let's dive into how you got up to your current business model...

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AB: Yes, sure. So I started in 2011 with a small one bedroom, one bathroom condo in Atlanta. At that time, I bought it for \$11,000. It sounds like a joke now, but back then, we bought it off the hotstore.com, it was a government platform where it was for primary resident occupants. So, I was going to college and I wanted to live closer to Georgia State University. So, this property I bought for \$11,000 later ended up renting it out and then selling it. But I started small, very small one bedroom, a bathroom condo, that led to partnering with some people doing more rentals and then doing flips and all that, and meanwhile I was working in corporate America, and my background, I was accounting finance and my Master's in Tax, so I worked several years and different companies doing finance, accounting and tax.

My goal was always by the age of 30 to achieve financial freedom through real estate investing... Right, so I was able to do that by 29. My goal was to get to \$10,000 a month in passive income. So, currently we have my rental portfolio, it was around 40 properties and consists of single-family town houses, smaller multifamily units, but I focused heavily on doing flips. So I did over 100 flips in Atlanta, and when you're doing those flips, the capital gains is intense, so you know, you have to offset that with some depreciation and passive income. So that's sort of how I got to where I'm at now and focusing more on building out a rental portfolio through these value-add small multi-family properties that we're finding.

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WS: Nice, and I know he said he's in to flip... It did over 100 flips in Atlanta, so you've done a number of flips in that market and has a market will, but now you are... You're not just flipping small homes, you're flipping a smaller multi-family properties. And I know even before the show we were talking about instead of thinking you have to syndicate or all the guys and gals that are looking for that 100 plus deal for their first deal, there may be another option for you if you're in a market that's as competitive like Atlanta. So let's dive into that business model a little bit, and you're looking for small multis now, and tell us just your thought process a little bit behind what you're looking for and how you're finding those deals?

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AB: Yes, so the small multi-family market is a very interesting space and a very lucrative space also. So we come across properties and they're mainly owned by people who have own them

for 20, 30, 40 years. So, that eight of that population of ownership right now, and the properties are basically between 65 to 85, I would say. So, we're seeing a lot of people in that age starting to exit, either their family doesn't want to, their kids don't want it. So, they're selling off these assets. Now, the problem in today's modern market is that these properties are not to 2021 standards, they're not appealing to the modern consumer, so we're coming in there, the rents are around \$400, \$450, \$500 for our two bedroom, let's say, and that's just not realistic in today's market, with the price of rent going up. So, we're coming in, there were basically getting people out of the units and some people... It actually works out because they want better conditions; they're willing to pay more rent for a nice modern unit with new cabinets granted. So, we've successfully actually transitioned lots of people, not that we... Sometimes we get a bad rep that we're taking people out and raising rents, but actually I feel like we are providing cleaner, safer housing that people want to have it, not much of it out there.

So, we are finding a solution for this void in the market, but basically we like the small multifamily market because it's basically to me like flipping a house, but I'm multiplying everything. There's eight bathrooms, no, I'm doing eight vanities, 8 toilets, 8 tubs. So to me, it's sort of more efficient and actually easier than actually flipping a house, I would say, and that flipping experience and managing rental properties has really helped on this side as well.

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WS: You can flip and a unit a lot of pastor and you can flip a single family homes, right?

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AB: Yeah. You get one permit for the whole building, you don't need eight separate permits, like you went on eight houses, and it just makes it more efficient. But, the problem is you have to be backed by savings, have a capital account basically, because the numbers at the profits, basically I say your profits have an extra zero but... so do your expenses. So, you just have to be prepared going in and on these projects, they're considered commercial. So actually the way you do electrical, plumbing, and all that is a little different, so you have to be aware of these nuances that are different, and flipping houses, you have to be compliant with ADA, compliant with the parking lot on, all those different stuff, so you pick up on these things. But after a while, sort becomes a routine and second nature, and you are able to provide value on these small properties.

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WS: What's been your best source of finding this type of property?

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AB: So it's unbelievable, but the MLS... What happens on the MLS is, the way I do it is, okay, a property comes up, I don't even pay attention to what the price... What the guy listed it. Alright, so I'm over there, let's say an eight unit pops up. I'll give you an example, I bought a six-unit building, it was listed for \$500,000. I bought it for \$325,000. Now, this thing... some people would say, Oh, I'm insane. Why would I even offer that? But, I made a legit offer, I broke everything down from exterior renovations to interior innovations, I put pricing of roof, windows. I made a logical argument and the guy accepted \$325,000, so there's nothing...

And again, that comes down to underwriting, I don't care what the price is in disregarded that completely, I come up with my own price. Submit a legitimate offer with support, that's very important because you don't wanna offend the person, but when you're presenting a person fact... And most of these people who own these buildings, they're sort of sophisticated investors, so they sort of can tell if you're trying to deceive them or lie to them. But when you approach them honestly with facts, this is how much a deck cost, your deck is all rotted out, so I've had success off the MLS making these offers and negotiating, and also I spent a lot of money up front on building basically a credibility packet.

If you go to my website, alexbabayev.com/portfolio, I have videos of there -- before and after during photos. Before, during it, so when you show people this sort of credibility packet and videos, it's a lot better than you just submit a bar form and say, Oh, here's my offer, \$150,000 below your ass, right. So sort of doing it strategically methodically and illogically and using my finance background are sort of presented in the Excel format and are usable, easy to read document for the seller.

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WS: I think that's very wise. You're not just low-balling them with nothing else said, right. Here's some low-ball offer. Really just making a mad and shut in the door in your face. But tell us about that first contact, you see that on the MLS, maybe then you start doing some underwriting or creating that package, you're gonna send to that person. Are you sending that away or are you calling them just to create some report... What does that look like?

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AB: Yeah, so you usually... I'll see the listing on the MLS, let's say, then I'll see the images right away, but this is something that I can add-value to. And I then begin talking to the listing agent, sort of feeling them out, explaining to them, seeing if they're even aware some people are not aware, because on these small multifamilies, they could be residential realtors listing like an eight-unit apartment building... Right, so they may not even be aware of what I'm talking about. That the asphalt needs \$25,000 of work and all these other things, so I sort of feel out the agent, tell them, I'm gonna send them an offer, explain to them that I'm gonna go to the property, I'm gonna... Usually, nobody lets you walk the units until you're under contract.

So, I at least do the exterior, take photos and literally submit like a PDF document with photos, look, deck falling off roof here, tree removal, Sir. So I just put this together, submit it to them, and you know, I didn't get deals, basically, there's several times where they picked other people over me. And my most recent deal that I just sold, I got that deal six months after. So they came back to me eventually, because they kept going under contract, going out of contract, under contract, out of contract. So there's a lot of people sort of, Okay, I'll pay the \$500,000 as listed that. But when logic settles in, there's no way that thing is worth \$500,000, so you don't get these deals instantly, but eventually, most of the times these people have come back to me...

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WS: Nice, I think you just made a great point right there. You make the offer, maybe they don't even respond or whatever, but sometimes they come back. Do you have an example of that or maybe how long it took, or maybe just when you finally say, you know what, we're just gonna hold on that, I'm not gonna offer anymore and we're gonna wait and see what happens.

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AB: Yeah, so right now I have a live example where this month we sold a six-unit building. So this building went on the market in July of 2020. I made an offer, they didn't pick my offer, they went with someone else. Then it was on the MLS constantly back on. Back off, back on. Eventually, I bought it in September or October of 2020 for my price.

The interesting thing is, I bought it for the price I offered at \$300,000, 6 unit building, and the guy even put on a new roof, he did all these other things because he was hoping to get that higher price point that he wanted, but nobody gave it to him, but my him not accepting my offer,

he actually added stuff himself to the building.

And we picked up that building... The rents were \$450 a unit. We did complete interior renovations, and right now when we sold it, we got the rent to \$1,050 to \$1,100 per door to a huge value add, and it's a completely different building, completely different tenants in there, so this stuff is still possible in this market...

Next week, I'm closing on a 17-unit building. Now, that one we found off-market, but these small multifamilies are possible even in today's market.

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WS: Nice. Now, I just think that breathes a little hope into a lot of the listeners ears as well, maybe they can't find that 100 unit deal or they're struggling to get there, but there are still some deals, even in the small multifamilies as well. And tell me a little bit about how do you know when you're planning to hold something or to sell it or hold long-term, how do you develop your business plan around that?

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AB: Basically, some of my properties that have sort of taken a double, I like to take some money off the table, so some of these, they're cash flowing and all of that, that everything is good, but there's no logic or it's just sort of... Sometimes you're like, my strategy, I wanted to ship from some residential assets to some commercial assets that we bought a medical building now and we're doing a value-add play there. So I'm repositioning capital, I feel like is important because you can't constantly keep doing refills... That's expensive. And then some of these loans have these pre-payment penalties, which adds on more cost, so sometimes I feel like there's nothing wrong with selling the asset, taking some money off the table and doing this process all over again, even if you do it in a different asset class like storage units or medical office buildings. But to me, I don't feel like people say you need to focus on one niche apartment buildings or... But to me, it's sort of all value-add renovation, that's what I'm comfortable with, and taking an asset that's a distressed and bringing it back up to modern standards, so I've been doing it around 10 years, so I'm very comfortable.

And you start seeing patterns, basically, like if you look at a shopping center, you see the

signage, outdated fade, you see the parkin, it's all crap and shit. So you pick up on these things and you're like, Hey, he's selling this building. If I put in \$100-150,000, you can completely change this. So with the experience, basically, and that's why analyzing deals is so important, like I spent... When I first I started, I analyze deals every morning because once you start doing that, even if it's something you don't want off the MLS, you start seeing the pictures, you start seeing the descriptions, you start saying the pricing of the asset, and then it becomes sort of you have all these things in your tool you can pull from when you need to pull the trigger and actually make the offer, so it's like practice.

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WS: Right. And it's consistent, consistent practice, where you start to see those photos, you start to see things you didn't see before. Alex, what's been the most challenging part for you to scale at this level and start to just create this kind of business?

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AB: The challenging part, we used to have challenges like finding money, putting deals together and stuff, but sort of when you do a couple of these, you build trust in the community with private lenders. Currently, I would say, even though we're finding deals are still very challenging because we don't wanna over-pay. And, our current biggest challenges across the material, so the reason why sometimes I can't pay as much for assets right now is not because the asset isn't worth that much, it is because the material costs for me to renovate the asset has gone up by 30% for me for example. So that's sort of a big challenge that I'm having to talk to sellers about now and explain to them that I agree with you, this building may be worth \$300,000, like you're saying, but... my material cost has gone up. How am I supposed to renovate it? Some sellers, they don't even know... That's the problem, yes, that's what I have to educate and talk to the agents, the sellers, they don't know a 2 x 4 or 6 dollars right now at Home Depot, where it used to be \$350 a year and a half ago, but that affects me drastically when I'm replacing several decks.

We're talking about a tenth and when we have to frame out bedrooms and all that, this is a huge expense right now that we are having to price it, basically.

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WS: It is a huge, expanse, big change for anyone in our industry, in many industries right now in

construction. Again, there's places in the country or where a supply of a piece of plywood can be anywhere from 70 to 80 a sheet as opposed to 30 or 35 or less. So no doubt.

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AB: Our cap rates or reserves, all of that completely changes and you have to be aware of these things. That's why it's not just real estate that we're doing... Everything is involved here. Sort of politics affects. We were importing stuff from China, we were paying the tear off that President Trump put on the micro and macroeconomics, that's why you have to be up-to-date. What's going on with lumber prices, metal prices, HVAC systems, all of these basically, is how you form these offers, all of these has to come together, not just one thing.

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WS: How are you preparing for a downturn or buying a property like this? What your thoughts about if a downturn happens in the next six months?

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AB: So I have people from my consulting side who have been coming to me for years and saying, what if the market goes down this year, they missed huge opportunities. But internally and very cautious of it, but because we protect our money with everything we have, but we protect our private lenders or investors, money even harder, right? So that's the most important thing.

So, we are very cautious on our buys and in Atlanta, our rental market is unbelievable. So to be honest, I feel like If I'm underwriting \$1,000 per unit and things come down, I still have room, but that's part of the reason why I am selling some assets that have lots of equity and of trying to reposition them again to more distressed assets and rebuild, rebuild them up from ground up, because we have seen a huge spike and the cap rate compression, spike in prices on the sell side, and I don't think... Honestly, people's salaries have not caught up to how rent has gone up, if you look on a chart, right. So at some point, these rent increases have to stop, I feel like there's a huge affordable housing problem, we have this huge eviction moratorium going on, which we haven't even seen the side effects of what's gonna happen, we personally have people who are on... Being on the eviction waiting list from our properties. I know people in Metro Atlanta, we don't know how this is gonna play out. And when this does play out, there may be some ripple effect that none of us can predict, so that's why on the syndication, you see

people buying these low cap rates, 5% in four and a half. It's very dangerous, I feel like.

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WS: Yeah, no, that's some great insight right there. And you even mentioned some things like just staying up-to-date on what's happening politically, and just in a bigger scale than even your local market and learning how it affects you,. Is there any specific... I don't know ways that you stay up-to-date on those things and gather important information that you trust?

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AB: I host monthly meet up here in Atlanta, and I feel like these meet-ups, these local meet-ups are very important to attend to because you get a pulse, you get people who come there who are doing different aspects of real estate. You can all mingle and chat and see, and I feel like that gives me a huge insight because you're sort of hearing it from the boots on the ground, the property managers, everyone who's involved before sort of information goes public about what's happening, where the next development side is, where they're building mixed use. And so I feel like, I used to go to everything when I first started that had a real estate tag on it, to these events in Atlanta. That's sort of how I started networking when I was just starting, I feel is very important. You can get a lot of information on these events.

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WS: That's true, Alex, all the meet-ups are free. It is a great resource that most do not take advantage of. But I wanted to ask you as well to see your thoughts after that data, after being surrounded by those people in that market and in other markets as well. Do you have any predictions over the next six to 12 months just in real estate market?

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AB: I feel like, again, the very important factor here is gonna be a lot of mom and pop rental property owners are suffering right now because we still have insurance property tax, utilities do on all these properties and the eviction moratorium is hurting people. So I feel like the government, by doing this moratorium is gonna have to face some kind of consequences. And right now the owners are suffering. So we don't know. I feel like this is the big kick that we need to sort of be very conscious on, like I said, of what's gonna happen to all these people when the eviction process? What's gonna happen to all these houses that people are still defaulting on their mortgages right now?

So we have this big problem, we are not seeing this problem in the stock market, you see how the stock market keeps going up, and it's not picking up on these little factors that are happening on Main Street. But these problems are very real, and if you talk to any mom and pop owner, but how long can they handle the hits of all these bills do, but no rental income coming in, and we again, do not know of the ramifications, how is this gonna play out in the real estate space.

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WS: Yeah, I don't always have a crystal ball, that's for sure. But there's definitely things we need to be watching, like things like you're mentioning, so we can, I guess, have a plan. Having a plan...

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AB: That's why some capital reserves, you know, people get in trouble who do not have that in place.

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WS: Do you have a way of calculating like how much reserves you should have or anything like that, a metric that you use?

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AB: So basically for each building, we leave three months' worth of mortgage payment, all that that in there. Now that's just in that particular bank account. In general, our company, there's no formal or anything, but we have a cushion basically that we never go below threshold of a dollar amount, let's say \$50,000, this account will never go below because we can allocate this account to any property that has a major issue. So, we've been fortunate enough to do that upfront and not deplete all of our capital, so we have to... We stop some projects and cancel some expenses while this is going on.

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WS: Now that is smart. No doubt about it. Need a reserve budget, and I'm really big on having... I know the listeners know I'm just big on having an ample reserve budget 'cause cash is king when things are bad or things happen that you didn't expect. Alex, do you have any daily habits that you are disciplined about that have helped you achieve success?

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AB: All I do a live breathe, and it's real estate. I have a family and everything that I'm very dedicated to real state and analyzing deals, to being around people who are in real estate and to attending events and going on podcast platform. So, I feel like being deeply involved in, reading forums and a magazine relate to real estate allows you to be successful because when it's sort of hyper-focus, basically, I don't know anything about the stock market. I don't know about crypto, nothing I know real estate. Right? So I feel like when you sort of zone in on it, like that the books you read are a real estate, and like I said, the people you talk to our real estate, so it provides you a level of confidence in the level of knowledge that you become sort of an expert. People come to you and that's sort of how you get deals because people see that you're not doing crypto one day selling life insurance the other day, all you know is real estate 10 years in a row, that's all that guy does.

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WS: Right, no, that's wise. What about the number one thing that's contributed to your success?

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AB: Success is defined differently. I would say my success was leaving corporate America because that freed up so much of my time where I was balancing a nine to five job and real estate on the side. Once I was able to achieve that financial freedom and not have to worry about a paycheck, I feel like that opened up a whole different lane because now you can spend nine to five doing real estate. And it's very important for people who are trying to make that transition from corporate America. It's very uncomfortable to do it because you get your guaranteed paycheck and insurance and all that, but I feel like the ultimate success, if what you wanna do is be fully engaged in real estate, once you get that burden off, whatever job you're doing and just focus, it's like you free and you can attend mastermind, you can do... Nobody's like, Oh, I have this assignment due in the back. So I feel like the success basically, to me was to get the freedom to do real estate

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WS: That's awesome. I love that answer too, 'cause it is, it's like you can attack it then at a whole new level that you never could before. Alex, how do you like to give back?

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AB: Different communities we go into, we try to always be engaged with the kids and the families there. So, if they need help, for example, moving expenses or we gave them a 60-day notice to vacate, but they need help paying a security deposit before they get...we just do different things. We work with people who are in these communities that we're buying in and we try to assist them, not just sort of...we sent you a notice to vacate it, and that's it. So we have done several things where we've paid for moving fees, we've done different things to help them to alleviate because these people have been in these places for a long time, in five years, eight years. So, imagine me coming and just giving them a 60-day note or so if we try to help them out and make it as painless as possible, and people are then happy, and that's our main goal basically, is to make easy, smooth transitions and give back to them. For us, it's in a form of money by helping them go to a new place, and then we internally do some events around town, or we give back to the city of Atlanta, like feed the homeless event and stuff like that.

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WS: Nice, Alex, grateful to meet you and really just to help us to think, focus on the syndication business, hey, maybe we're missing some opportunities over here, especially in the markets we're familiar with, where we could be doing some smaller multifamily as well. And so it's just grateful where you just really broadening our minds to that and hearing how you've been so successful at working these smaller multifamily properties and flipping them and understanding the business very well, and creating your business in a big way. So grateful to meet you. How can the listeners get in touch with you to learn more about you?

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AB: : I'm pretty active on Instagram, so I show some before, during, and after our renovations and give some tips and tricks on... My handle is @transformation_papi, so you can follow me there. And, my website is just my name, alexbabayev.com. If you ever in the Atlanta market wanna invest or you can reach out to me, alexbabayev.com and my email alex@aralproperties.com.

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