EPISODE 1081

[INTRODUCTION]

[0:00:0.0] 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]

[0:00:01.6] WS: This is your daily real estate syndication show. I am your host, Whitney Sewell. It's that time of week again, where my business partner, Sam Rust takes over the show and interviews our guest. I hope you enjoy the show.

[0:00:33.5] SR: Welcome to your Daily Real Estate Syndication Show. I'm your host, Sam Rust. Happy to have on the show today Jorge Fajardo. Jorge established Keystone Property Investments in 2015. He's sold over 100 properties in both the single-family and multi-family space, he's done joint ventures with a vast network of GCs engineers and project managers, which has allowed Keystone to scale throughout the state of Florida. George still holds an MLS lending license and works with other investors, providing private lending and financing for real estate deals. George, welcome to the show.

[0:01:10.5] JF: Thanks, Sam, thanks for having me.

[0:01:10.5] SR: Yeah, you've got quite the varied background here, you and I were talking a little bit before we got started here about your background in the loss mitigation space and more the mortgage background, maybe if you could give our audience just a brief sketch of where you came from before you started Keystone property investments in 2015?

[0:01:29.5] JF: Yeah, absolutely, I'd be happy too. So obviously, I didn't start in the investment space right away, I actually started in the industry back in 2002 when Red, fresh out of college, I went into the mortgage financing and lending industry, and so from about 2002 until 2008, I sort of climbed up the ranks in the mortgage financing industry to the point where eventually had my own mortgage company, mortgage lending brokerage for about four years up until the focus crisis came upon us and caused the landing freeze and everything else that we saw from that during that time. So I actually saw the rise of the lending and the fall... (You got a view from the inside.) Yeah, oh, before I was 30 years old.

[0:02:22.1] SR: I'm curious how that experience working in the real estate industry and in one of the hardest hit sectors, a single family mortgage origination, how that has impacted your investing career over the last 10 years or so?

[0:02:35.5] JF: I'm definitely very, very... What I would say conservative, when it comes to the dead side, it's something that I've learned over the years where I haven't seen what I've been through with the lending side of it, I never wanna be over-leveraged, and I was cautioned even my lending clients as well, not to over-leverage themselves. So that's something that's very important to be aware of. And so when the foreclosure crisis hit, I basically parlayed my experience in the lending industry, and I went to work on the consumer side, a foreclosure defense, because that's where I saw there was a big need for distress borrowers that were experiencing hardship for someone to advocate on their behalf and basically go to bat for them with these lenders, with the big banks to help work out settlements that eventually became normalized vernacular or terms in our everyday life, certain terms as known modifications and short sells, short pay-offs, things of that nature, that now are very common language nowadays, back then in 2007, when we started to see even before the official hit of the crisis, we started to see the signs, we were already exploring the learning about short sells before anyone even knew what a short sell was.

[0:03:57.0] SR: Yeah, that would be a fascinating time to just be in the real estate industry watching the cracks form and then all of a sudden the bottom to just completely drop out.

[0:04:06.0] JF: Oh yeah, we had a front... Rose again, if you go back, everywhere you look, I think the official date for the foreclosure crisis is somewhere 2008, spring, spring, summer 2008. But in reality, we were seeing the signs in the summer of 2007, I can tell you where we had closing scheduled ready to fund that day. And this is back when we were still getting faxes. I remember one specific instance where we actually several where we actually receiving faxes or emails on that exact day of closing or even funding, where the lenders were notified as that effective immediately would no longer be funding any more transactions, so imagine it's getting hit head with a cold bucket of water. (That would not be a fun moment in time.) No it's one of those situations where I look back and I just remember looking at MSNBC and other different financial channels and looking at the takers and just one after the other, all these landing institutions falling like dominoes, so it wasn't a fun time to be especially to be in the industry.

[0:05:09.0] SR: So you pivoted coming out of that recession and started working towards your law degree and also founded Keystone property investments. What made you decide to kind of pair a Law degree with exploring... Investing in real estate?

[0:05:25.0] JF: I was in loss mitigation from 2002 up until 2015, when I decided to open Keystone, and what I kept seeing was through the last mitigation focusing on the financial aspect of it, I would find myself inevitably sort of bleeding over into the legal side of it, the two issues, especially in this industry, which is merged together, and so I felt that I would be far more effective if I also had the ability to not only speak about it, but to basically be licensed and legally be able to do it, 'cause obviously with a lot without the proper licensing and law degree, you can't really give to advisor at Landis nature, so I always had to couch my contribution with the financial side, and I wanted to be able to really speak freely across a full range of options, and so actually I was still in my last year of law school in 2015 when I launched the keystone, so my first year, I was still doing law school in the evenings and basically in launching a full-time investment firm. And so it was quite an interesting time. I was pretty busy to say the least.

[0:06:30.1] SR: Yeah, you had an 18, 24-month period in there where you weren't doing much besides working in school.

[0:06:38.0] JF: Yeah, yeah, I mean, it was literally 20-hour days with a couple hours is leaving between, but it was obviously worth it, and so again, as I was transitioning, one of the reasons I transitioned was I kept seeing, especially with these short sales, I kept seeing a lot of the same buyers coming back, a lot of the same investors buying multiple properties, and I was just so intrigued by, Well, how do they keep doing this, how do they keep coming back and buy property up to property after property. When I had delved into the invest inside back in 2006, 2007, I had two rentals that are third, but I was buying them through conventional financing because that's all I knew at the time. It is like, Listen, 10% down, 20% down. I would go through the whole underwriting process, this is what you qualify for, this is what you can get, and I just didn't at the time really understand how investors could build such large portfolios with the tools that I had at my disposal, and so fast forward several years later, it all started coming full circle, and I was basically able to put the pieces together.

[0:07:41.2] SR: So what does Keystone property investments or KPI? What do you guys focus on? You've got a pretty diverse holding, but single-family, multi-family, are you doing joint ventures? Are you syndicating your own capital... What's the mix look like?

[0:07:45.2] JF: We started primarily in single far... And again, because that's what I knew at the time. We started again in 2015. By 2017-2018, we were buying houses at a rate of 7 to 10 houses per quarter, so we were average, let's say, about 40 properties a year, and the structure that we were using at the time was the Joint Venture structure where I would take on the bed side, through my blending sources, through hard money, private money, and then I was bringing on a joint venture partner on the equity side, where we would set up some sort of split structure, be a 50, 50, 60, 40, so and so forth. But I was keeping it pretty much to about one investor, as I call them, a one funding partner or deal, where maybe I would have the same funding part about three or four deals, but it'll only be one per deal. And from there, I started doing my research and networking and learning more about syndication, and it just sort of clicked for me where,

Well, the syndication is just, it's a similar structure as a dream venture, obviously, there's a lot more nuance, but big picture, similar structure to the joint venture, but instead of one funding partner, we could have anywhere between two to 10 and we're able to do larger deals and so we started, I basically went in and started learning more about this and networking more in those circles, trying to get away, transition from the single family space, and all I made... I'm relatively new to the syndication process itself on the multi-family side, but in the past year and a half, we've been able to acquire 18, 20 and now 14. So where's that put is close to 50 doors, we actually sold the 20, and so that left us with the 18 and the 14, and we're looking to continue to grow that side of it, so we've been putting a heavier emphasis on the multi-family syndication.

[0:09:58.1] SR: Yeah, multifamily definitely allows you to scale a little bit more, and as you move from just a one to one ratio, one investor per project and you start getting to the larger projects, you gotta pull a few more folks together, how have you been sourcing your investors up to this point?

[0:10:12.1] JF: Well, most of it has been network, obviously with Covid that got obviously hindered quite a bit, but luckily we were able to maintain a lot of the relationships we had, but most of it initially was through networking, then I started joining in the syndication space, attending different conferences, and joining different masterminds, and actually, as I mentioned, going and being in that circle, 'cause I was primarily in the single family space, and so I initially tried to use or leverage some of my contacts from the same family space and bring him into the multi-family, and while it did work to some extent, I found that it was difficult trying to re-educate the single-family investors and explain to them to change their mindset and get him back over into the multi-family.

So right up until Covid, March 2020, I was focusing very heavily and just almost starting from scratch in the new circle with multi-family investors that wanted to invest a multi-family at some level of knowledge and multi-family and actually were open to it. So it was after spending X amount of years, basically networking in single-family circles, I had to start sort of making that transition, and that's exactly what I was doing up until covid hit, and then from there, it's kind of more of the... To since now, everything's virtual through other contacts, one of my contacts came to me and said, Look, we have some investors from Argentina that they're familiar, they invest in South America and they buy apartment building, so they know about multi-family but in their markets, and they're trying to get into this market. And so without getting too much into it, there's other factors that they take into consideration such as government arrest, financial stability in their countries, Argentina being one specifically Peru in another one, and so I'm now finding myself where through one contact led to another and another and another and now having meetings with investors that are coming from other countries that wanna invest here, and I'm actually teaching them about the syndication process and setting up this indication structure so we can start purchasing and acquiring multi-family units together.

[0:12:27.9] SR: That's really interesting. I know there's quite a few folks who listen to this show who have either invested in syndication or run syndication themselves, but something that I've always heard and talking to cpas or attorneys is it can be somewhat challenging to bring international investors into a syndication format. Would you mind going into a little bit of detail on how you guys actually structure that and what you perceive as some of the benefits?

[0:12:53.1] JF: Yeah, absolutely. So for the most part, they've already have some level of experience or have done some business here in the States, so they already have established LLCs, they have tax ID numbers, they have bank accounts. So that actually makes it easier. By the time that I'm working with them, when we're building our syndication, I'm basically setting it up through there already a stables LLC or legal entity that they have here, and when it comes, same thing, when it comes to the funds, it's money that they've already moved through help with their legal advisors, financial advisors, they already have the funds in an account in their entity name here in the US, so at that point, it makes it much easier and it's no different from my standpoint when setting up that syndication with them, when we start to set up that LP structure with them.

[0:13:41.9] SR: That's very interesting. And then something else that I've heard a little bit about, I'm curious what experience you have, is this EB 5 Visa incentive program, is that something you've dealt with much?

[0:13:53.1] JF: There's a couple of different visas that investors can use to help expedite their status... that’s called the visa status here in the United States. And so the ev5 on the E to another, so they all have different criteria, different requirements, and so one of them being, for example, the B5, if you're here, you're able to create jobs if you're investing over a certain amount of money, let's say between 500000 to a million dollars, if you create over a certain number of jobs, let's say 10 jobs that you start going down the list and you're able to start checking the requirements off that list, if you check off enough of them, then you're actually eligible to receive this type of visa so it's basically what you would call an Investor Visa and allows you to travel legally to the US as an investor because you're helping with the economy and you're creating jobs, and so that's a good benefit for some of these larger investors that have the resources to be able to do that, and it doesn't have to be limited to real estate, they can use that for pretty much any type of viable business that meets the requirements, where again, they're able to create jobs and inject funds into the economy.

[0:15:02.8] SR: Sure, so you've been raising capital from investors in one form of another, basically since Keystone was founded six years ago, you've dealt with a lot of different investors, you've started syndicating over the last two years, you've even gone full cycle on a syndication. What's your best advice for taking care of investors?

[0:15:21.8] JF: There's a couple of things I would say. So in terms of taking care of investors, you definitely wanna focus on that investor relationship or what I call the investor relations it... You wanna make sure that they're informed. You wanna have transparency, you wanna have the right type of reporting, whatever it is that you agree on, so they know exactly how their investment is performing, they know exactly where their money is going, and everything along those lines, so that's on the side of... Once you have the investor, once you have an established relationship with them, finitely wanna place a heavy emphasis on investor relations, but before that, when you're speaking to investors, it really is about... For me, in my case, frame control, frame control in the sense that I don't approach an investor with the mindset that I'm asking them for something that they're doing me a favor, that they're investing in one of our projects or partnering with us in one of our projects, I go into it with the idea that I'm actually providing value for them, and I'm giving them an opportunity to enter into a project that they may not otherwise have where that comes with all the benefits that come along with investing in real estate, whether it's a single family joint venture or larger scale syndication, and so I'm never nervous about approaching an investor because I come from the mindset that number one, I'm not soliciting them, it comes from a point of where someone in the room for some reason and they wanted to be there either through a networking event or a referral from a mutual source on and so forth, but once we're sitting across the table from each other, I'm coming more from the approach that, Listen, I'm providing a benefit for you and you see in return, it's mutual. We're able to do a deal together, and it's a win-win...

[0:17:08.4] SR: Yeah, think there's a lot of folks that are breaking into this business that asks that question, or a variation that I get a lot is How do you sleep at night with all these investors that have invested with you and all the capital that's been placed, and I think it really comes down to your own internal mindset, like you were saying, really owning the opportunity and not being a salesman, I mean, yes, we are promoting our company, we're promoting the opportunity itself, but we genuinely believe in the opportunity and we see it as a good thing for whoever we're talking to, whether it's a group of people or an individual, and people respond well to that. People don't wanna be sold, they wanna see the benefit, and I think the beefits in real estate, and I'm sure you would agree, George, but just so obvious that these returns are really fantastic relative to what most of these folks have invested in for the rest of their careers.

[0:17:55.4] JF: and I'll add something else to that, because I approach it as basically a partnership because that's really what it is, ultimately, I'm taking on the dead side... Okay, and while they are bringing in the equity side to put the deal together, I'm also contributing, and so a lot of times... And again, this is what I mean by frame control. The way I look at it is, I'm in this field too. Okay, I'm taking a little risk because I'm taking on the data, especially in the single family solitary, for example, where I'm the only one or Keystone is the only one on the now, or obviously, it's a little bit different on the syndication where the GP still collectively on the dead side as well, but I wouldn't put myself in that position if I didn't believe in the deal, If I had a junior believe in the deal itself, and our underwriting criteria are disciplined to make sure that we stick to that criteria.

0:18:48.8 SR: How do you think that you personally stand out to your investors, there's real estate syndication is becoming more and more common, there's still a lot of people who maybe haven't heard of it, but generally, what do you try to provide... To go that extra mile?

0:19:06.8 JF: I mean, it's very saturated. Well, the first thing I'll say about that is when it comes to the syndication...Actually, to a previous point you made about the mindset, you have to have... You sleep at night. So on and so forth. One of the things I look at, I consider myself a relatively small player in this field, there's no doubt about it, I'm managing... I'll have about 15 million under management approximately right now, and some people look at that like, Oh wow, that's a lot. But then I'm in a room with someone with over 100 million under management, and it's part of that mindset where if they can do it, so can I... So you kinda have to have that confidence in yourself and your own abilities to begin with to be able to do that, and then as far as setting yourself apart, similar to things like we're doing right now, just go on, meet people, speak to people and be yourself be yourself because you can't be anyone else. Okay, and so if you try to... People are gonna see through that. So you set yourself apart, but be confident in your abilities and building those relationships, even if it's just one-on-one at this point, I'm not trying to build a book of hundred investors. As of right now, I'm building it up, smaller skill basis, ones and twos at a time, so I'm basically hitting singles and doubles, and then eventually... I feel that that will continue to grow organically.

[0:20:12.1] SR: it's fantastic, 'cause we're getting closer to the end, near George, there's a lot of speculation in the marketplace about what real estate is going to do, we're looking at a fairly elongated Bull Run starting back in 2010-2011, once we kinda bottomed out and it really hasn't stopped or slowed down, if anything, it feels like we've been picking up speed since covid hit, especially in the single-family space, where do you think we're at in the housing market these days, and do you see any storm clouds on the horizon that you'd like to discuss.

[0:20:55.1] JF: Yeah, so when you're talking about the housing market, again, obviously we have two side, we have the single family housing market, and then we have the multi-family, typically on the multi-family side that involves merely rentals on the single-family, it's more of the mortgage and finance industry, so the first thing I'll say is that I'm hearing a lot of rumblings about inflation, everybody's concerned about the rate of inflation and what that's gonna do to the interest rates and home prices, and in my opinion, I think it's definitely gonna start to slow down the increase the Rada, which prices are increasing, it's gonna level out the market a little bit, but with regard to the housing market itself, having learned some of the lessons that I saw back in 2008, 2009, 1010 as on and so forth, the conditions are different. Lenders learned a lot of lessons during that time, and a lot of homeowners have equity, even if with the different lockdown and issues that covid has brought on, I don't think we're gonna see an influx, basically a floor of the market of default in properties that it's gonna basically drop the values of the precipice of the cliff, like they've been back in 2008, because I feel that one of the big differences where the... Back then, because everybody was over-leveraged with all these creative financing programs, they were financing some cases even above 100% of the value of the property, and people were refinancing every 12 to 24 months just to keep pulling equity out. You don't see that nowadays, so a lot of powers on the single family side have a lot of equity, so even they do find themselves in trouble, they still have the ability to sell and maybe even walk away with money in their pocket. Whereas on the multi-family side, any draw down on the single family, I think is a good thing because people are always gonna need a place to live, and so if for whatever reason, due to circumstances, you're not able to qualify to be a home mortgage borrower, then you could still go in and rent, so that's why on the multi-family side, I feel that the old adage where it's...I wouldn't say recession proved nothing recession prove right, but it's a little bit more insulated to lot safer. So it's almost like from my perspective, one of the reasons why I like aging my bed on both sides between the single family in the multi-family space.

[0:23:15.1] SR: Makes a lot of sense. I think there's definitely some interesting macro economic factors at play right now, but I've heard this thing for the last couple of years, but the next recession won't be caused by real estate, like 2008 was 2008 really originated in real estate, and I tend to agree, I think that a lot of the lending standards, some of the stories I've heard of loans that were being retina, whether it was single or multi-family, it was just unbelievable. And yeah, I think the people that wrote those loans or were in a position to see what was going on, the memories of those bad occurrences haven't quite been wiped, so I don't think we're headed back towards that any time in the near future.

[0:23:54.1] JF: Yeah, I agree. And again, a lot of those programs back then were then being basically designed by the same people that were designing the credit default, so upon the back end where they were essentially betting...The bars would default. So it was a set up for failure all the way around, and I don't think that's gonna happen this time, or the next time a recession does roll around, the pandemic has definitely made its efforts to bring on at least some form of a small recession. Luckily, we haven't seen it yet, but I think that's why I went back to my original assessment of inflation, I think inflation might be a big factor in some sort of draw down, if you will, in the housing market at some point, I would say in next year, or two.

[0:24:40.1] S4: I think we're all watching both CPI, which doesn't seem to quite accurately reflect what's actually going on, and then our own internal metrics definitely look at cost of housing, cost of college, cost of healthcare, none of those things are rising slowly. They seem to be headed downhill pretty quickly, so... Well, George, really appreciate you hopping on the show today, but folks wanna reach out to learn more about what you're doing, what's the best way to contact you?

[0:24:05.1] JF: The best way I would say, you can reach me on social media, I'm on Instagram, on Facebook, Jorgefajardo@kpi and also...You can contact me directly at JeorgeKPIhouses dot com.
[0:25:16.1] Fantastic. Well, thank you to our audience for joining us on another episode of the real estate syndication show. This is your host, Sam Rust off.

[0:25:22.7] 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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