EPISODE 1167

[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 your co-host is David Robinson. David is a client of mine and he is doing big things in the real estate syndication industry. I know you are going to enjoy today's show.

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David Robinson (DR): This is your daily real estate syndication show. I'm your host, David Robinson. Today, our guest is Jae Park. Jay, welcome to the show. Thanks for spending some time with us.

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Jae Park (JP): Thanks for having me, David. I'm looking forward to being on the show.

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DR: So Jae currently manages the acquisitions team at Open Door Capital and overseas lead generation, underwriting, and due diligence. Prior to Open Door capital, he was part of the global strategy team at Uber in San Francisco. He has a chemical engineering background with a minor in business. He specializes in the underwriting side of mobile home park acquisitions, and so we're excited to dive into some detail about his role with Open Door Capital. But before we do, Jae, we would love to hear a little bit more about your background and how you got into this space. So if you can just back up and tell us a little bit about that.

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JP: Yeah, yeah, I definitely appreciate the quick intro. So just to take a step back, when I first started off, as you mentioned as an engineering background, I started chemical and turning in school, and I worked in (inaudible) for a few summers, I thought that's what I really wanted to do back a few years. And eventually made the transition and to go work in the tech industry. So I went to go work at Uber when I was a private company. And really, my real estate journey started with a core in and she was a project lead in the assignment that I was on. And she was a real estate investor out of the Bay area, she had a few red tours and made investments in real estate. And she actually recommended some business books and podcasts, one of the podcasts was, several of your listeners know as well, the Bigger Pockets podcast.

So I just started showing through a ton of content, just reading books and podcasts. And there was an opportunity through Open Door Capital as I was following on their Instagram to join the team, part-time basis, just helping out as they're scaling and growing. And I first came in mostly on underwriting function for the team about a year ago now. And I was just really got to know the team, work for a few months, and there are a few months I was actually looking to transition out of Uber that time and then a full-time opportunity at Open Door came up. So that was a natural, good transition. I joined a team and it's been a little bit more than the year now, it's been a good ride. So it's been fun.

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DR: Well, that's great. What was that process like getting started with them as an underwriter, part-time underwriter, and then the transition to full-time? What was that process like for you?

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JP: I first kind of totally rad them, but I actually saw the posting on-brand as an Instagram. It was when I was visiting my parents in Houston. I left San Francisco since everything wipe about during Covid. And so I was just on my phone a lot more, I was browsing on Instagram, and I just came in that post. And there was an application process and test process. We went through several tests, probably five or so tests just to probably positioned specifically. You would ask about your financial background, what's your experience in real estate, how do you analyze steels, it's like that. Did several of those tests, I'm sure we've had probably hundreds of applicants back then, and luckily enough, I was the one that had the opportunity to come work for the team.

And so it was a smaller team back then too. So when I came on board, it was Walker Meadows and Ryan Murdock mostly running acquisitions at that point. And just, I got involved with them and it was kind of, they were just trying to teach as much as I can, showing their model and then we make some improvement and just absorb by actually just being in the weeds and underwriting deals and reviewing deals, hundreds of deals over a few months. So I got my experience that way. And really, if we just both got to know each other a lot better, I got to know when the team, the group of people that we have, and then they got to know me as well. Just by working for them for a few months. It was a true part-time, I had a full-time job at Uber. I liked what I was doing there, and they needed some help. So I was a visual relationship, and it just went towards the end of my Uber time, I was looking for a transition into real estate as I got more a thought that they had it to opening, that opened up, so it was more of like a natural transition at that point.

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DR: That's great, yeah, thanks for shutting some light on that, that's an interesting way to enter into the business for sure. Describe for us, and we did a little bit of that in the bio, but describe for us what your role looks like with the Open Door team, and what a day in the life of Jae looks like.

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JP: So I would say it's really managing the acquisition process right now. And I would say you can break it down into three core functions. One is lead generation, so it's finding cost, and that could be talking to brokers, wholesalers, talking to sellers directly just to find deals.

Second part would be analysis, so now I'd be on the more underwriting side, analyzing the deals and stuff like that. And the third bucket, I think of it as due diligence, once you get a deal on a contract, you're getting it all the way to the closing, making sure the deal, what you thought it was like a paper is still what it's looking like when you actually got a property, do all your due diligence, review materials, it's similar to the deal that you like. So those are the three, core functions that I manage. And our team right now, it's about three or four people, we have some help on their writing deals right now, so spending a lot of modifying tweaking on the writing model and managing that process, and also spending a lot of time on building relationships and maintaining relationships with our dealers, it should be primarily brokers and wholesaler.

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DR: I appreciate you breaking it down into those three categories, the lead generation side, the analysis, and the due diligence. Why don't we just sort of tackle all three of those and dive a little bit deeper into each one of those aspects?

Let’s start with lead generation, you're in the mobile home park space, or at least that's a significant focus of what you guys are doing, talk to us a little bit about the strategies or tactics that you're executing to find good opportunities in the market today. And especially as it seems the multifamily space starts to become, has started to become quite saturated and you have a lot of the would-be multifamily investors that are transitioning into the mobile home park space because they can find better yield. Maybe talk to us about A – strategies and tactics and B – the impact of this migration into the mobile home park space.

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JP: I would say, let's just start with the tactics. We, first, you need to have a really have to have a crystal clear criteria, and that's kind of how we drive from. We first define our criteria. For example, for us, when I buy 90 plus pads and then public utilities, 100,000 people in a 50-mile radius, and several tables that we share with everyone we talk to. And so you think of the deals that exist in the mobile on park space that fit those criteria. I would say there are probably about 40,000 mobile home parks in the US. And the deals that we're looking for, probably the low thousands range, maybe even the higher. So they're far in few between that kind of drives your deal-finding strategy as well, because the ownership, the owners who own those type of assets could be a different type of seller than some of who owns, I gave 10 pad mobile home park in a smaller Metro.

So we kind of, that criteria really drives their acquisition strategy as well, and so for us, we really like we break it down and took in two categories. One is off-market and on-market. On market would be typically what you see listed. Listed by brokers, email blast, Loopnet, mobilehomepark.net. And you can find good deals that way and we've actually found deals that way too. We found a deal on Facebook Marketplace that was like 150 plus pad. You can find yourself that way too.

Primarily how we're finding deals right now is the off-market, which a lot of time can be broken down into even brokers can bring a ton of off-market deals. A lot of brokers have really strong relationships with owners who could be bigger groups just like us, and maybe the group for some reason, they don't wanna list their property for, they just wanna send a two, five fires, for example, just to keep it kind of on the rugs and apply it. And so they don't wanna upset anybody is still in a price I get.

So we get a lot of, those are one we call that the pocket listing. So we get a lot of pocket listings for that kind of deal just because we've done dealing with them. The second I would say is a wholesaler and whole sellers are people who are really, they have a database of mobile and parks that they built over time, they call seller is on the relationship of sellers and owners, and then they kind of have either they get the deal under contract and get an assignment fee that way if I take the difference or they just send a lead to us and then at the time you close on the deal, we pay them. So they can make money out of that.

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DR: To ask a follow-up question in regard to that, obviously, one of the founders of the team, Brandon Turner, a very well known for his role with Bigger Pockets. He clearly has a large social media presence. And if I remember correctly, there was a point in time where he was encouraging people to be out there hunting for deals and bringing them to the team. Is that part of the model for the wholesalers, is that how you've attracted the wholesalers to bring those deals to you?

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JP: Yeah, that's right, we actually, and that's the key benefit of having a Brandon. So we actually call that bring Brandon and a deal. And it's so part of our Legion funnel as well. We have a website called Bring Brandon a Deal, you guys can check out the site. There's a video and then you're kind of explaining what we're looking for and what the process looks like, how to submit a lead to us, it comes through our team and it gets tagged correctly, so we can review it. And he would just kind of post on his Instagram, Bring Brandon A Deal, this is what we're looking for. We used to do some webinars to explain to people and how to even find deals and things like that. And that was a solid funnel for us, we probably reviewed, we got hundreds of leads that way as well, and it's very similar to a wholesale model where there's a sign.

And so for us, our promotion right now is you bring us a deal that meets our criteria, we would pay you $100,000 at closing. So there's a lot of interest for that as well, and that's like a unique part of our acquisition strategy as well.

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DR: Before we move on to analysis, is there on the horizon, or do you see any strategies that maybe are unique that you haven't tested out in the past that you guys are looking to potentially deploy?

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JP: In terms of just in the MH space or lead generation?

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DR: Lead generation in the mobile home.

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JP: Let's say ours really is not about strategy per se. I think it's more system space and we're testing in up too. And so it's kind of, we've been in this space for a few years now, and we've really built a relationship with all the main brokers and main wholesalers. And we are now trying to get better at is trying to apply the 80-20 principle. A little bit more data-driven, and similar to the multifamily space, you have a few broker firms that are doing, you could have a 20%., I could be doing 80% of the volume in the entire space for the MH side, it's actually more concentrated based on our data.

You probably have five who have started doing 90% of the deal, all just based on size. So we're really trying to put a lot more effort and maintaining and building a stronger relationship with those groups that manage a vast majority of our transactions. And so we get deal that way. And so that could be being super easy to work with. We've had deals, we find stuff and we really try to keep our words, “Okay, we found this deal and this is gonna cost us this much, but we really tell your relationship with you guys, we're just gonna move on,” and hopefully the next deal we can make up for it that way.

So we really try to have a really long-term vision, this relationship we're trying to maintain for a lot of time and continue to do business together. There could be just like a cool gift, we could send them that closing like a surfboard. If we sign that this guy likes to go surf and things like that, so we just try to stay on top of the line. There is actually a book called blue fishing, which I highly recommend. It's kind of like, how can you stand out? And the lesson that we learn from that book is that people really remember the highs and the lows, they rarely remember the average day-to-day. So Steve says when he was traveling somewhere, he would just be read a Magazine and write a little note to one of these clients and just ship that little cut-out magazine in the mail. So they're like, “Wow, this is like, I've never gotten like this before.” So just trying to stand out that way too.

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DR: As it relates to direct to seller, coz really by tapping into brokers, you're sort of a second-level down from direct to seller, 'cause the brokers are doing that work of staying in contact with the seller.

Why not be more aggressive with direct-to-seller and play that role with the sellers versus working with the brokers directly?

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JP: I would say we are active in direct to sellers too. We actually closed the deal a few months ago, which was direct to the seller. It was another group that has mobile home parks and we had actually bought a park in the same metro. Every time I closed a deal, we do an email blast to our list just to say, “Hey, we close this deal.” Just to kind of reiterate that. And the seller saw that and then reach out to a section, “Hey, I have a park in that metro.” That was the very direct seller. Just us, and we close that. It's a strategy that works. That we implement.

If you think about it from a seller's perspective too, is there's also, when you're working with brokers, there's a level of representation that brokerage and some sellers as well. Actually, some sellers, don't wanna do direct to buyer transaction, they'll wanna go with their brokers because it help that process and there's representation from the program. So I think it's a depend.

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DR: That's a great point. And regardless of how deep or heavy you wanted to go with your direct to sell or efforts, there's gonna be some that you just can't connect with simply because they want an intermediary to help with the deal.

Before we move on to analysis. I did wanna ask you about whether or not you felt like there's been any, from a lead generation and an acquisitions perspective if there have been any challenges, as you see more and more would be multifamily investors that are sort of migrating into the mobile home park space because they see opportunity. Have you noticed any challenges that have come from that?

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JP: Yeah, definitely. I would say a lot of people in the real estate industry in general are feeling cap rate depreciation and just because you kinda have these bigger buyers coming to the space and searching for yield. And so we're seeing a lot of that in the mobile home park space too. If you look at the mobile home park space, just a few years ago, cap rates are probably 200 to 300 (inaudible) higher than that is today. And so it's just in the last few years, we've seen a significant amount of new entrants into the market, from different asset classes that like the supply and demand mechanics of mobile home park space, and they like that yield.

So it kind of drives down cap rates and increases pricing, so we just need to be true to our fundamental. As you know, that's why you need a crystal clear criteria. We wanna be the best in the mobile home park space that buy 90 plus pads, public utilities. Those criteria were really defined from us for the deals and based on their return structure, those are deals we can be very competitive on price, and I can win those deals. So I would say it just comes back to your criteria as well, and also trying to get a good sense of the market as well.

We also like to look at who are the other buyers that we're getting with and how are they structuring their syndication and things like that. So not only you wanna have a crystal clear criteria so you can really get good deal. But also you wanna say on top of the market whenthings are changing so you can adapt.

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DR: Well, let's talk about analysis real quick. So once you have a deal, maybe just talk to us about your process, your internal process from a mechanics perspective, and then maybe let's dive into some tips and strategies or mistakes that you see are common mistakes in underwriting and analyzing mobile home park deal. So maybe start with the mechanics of workflow as a deal comes into your pipeline.

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JP: So we use a tool called Asana, which is a workflow management tool. And quick fact I like to throw out is for every 100 bids, 100 deals that we look at, we probably only underwrite 10 of them. You're getting a 100 bids but you're only really looking at 10 deals deeply. And so it's like the big funnel we're trying to build that that's why we spend so much time generating leads because we know most of them don't make it through that funnel.

So it's like a three-step process that we filter really. The first step is we have such a clear criteria, a lot of times we can just glance at the deal for a minute or two and immediately no go, or this is worth i t and we go further. That could be based on size, potential purchase priced, other type of criterias that we've developed. And that's our first one. The second funnel is we have a quick tool with quick financial model that we've built out that I look at where we think this part should be value right now compared to the price and where we think the value would be after we make improvements without fully underwriting a deal. And so that's a next level of funnel that we do. Then we can very easily tell the pricing is way off or it's a little too stabilized for us to hit our return.

So that's the next and then the remaining 10 or 15 or so deals that go to that funnel, we actually underwrite. We have a model that we've built out in-house that we use for every single one of our deals and once deals mix it to that, we generally know we're gonna make an offer and we're gonna be generate competitive on price. And so those are the three-step funnels, and obviously after that, you'll make an offer. There's a lot of effort that we put in just to build that final and maintain that funnel.

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DR: Thank you for walking us through that. So let's talk a little bit about some of the common mistakes that you see made by operators that are underwriting mobile home park deals, what are those mistakes made?

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JP: Yeah, I would say the first and foremost is mobile home parks generally have a couple of things going on. It's just the mobile home parks, you have utilities running and you got ads and you could have different things. We've seen single-family homes and the park, we’ve seen apartments and the park. We’ve seen self-storage unit. But in general, mobile home park valuation is two parts. One, the valuation is you look at just a lot, you look at just, you call it the land, the lots. So the land generate some kind of income which is from the lot rent. That is different value, differently than for sometimes a park and in several forms, we call those Park on home, lenders and buyers value those completely. If the land generates a certain amount of income, then we apply a cap rate to come up with a value to that. But if the owner has some homes in the park and they're generating some rent on top of the lot rent, for example, then that doesn't get applied to cap rate.

So that's a common mistake we see some operatives do is they take the whole growth income with a bunch of park and owns, apply cap rate, and come up with a valuation and we see them over a pay that way.

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DR: And are you looking for exclusively tenant-owned homes on these parks, and what happens if you find a deal where you have a significant number of park owned?

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JP: That's one of our criteria too that we build up, if we wanna be buying parks that have less than 25% pads. And the reason is tenant-owned homes generally tend to be longer-term tenants and lower maintenance because a tenant on the homes there is very little you're not going in there fixing all it, maintaining their homes for doing repairs, and minutes on the hose if of your rental unit, for example. So then really it's just a lower operational expense business, less headache, less management, so we love that.

We try to target less than 25% park on home, that doesn't mean we make exceptions to that, it's not automatic no go. If we like the other aspects of the deal, then we would be more lenient on that criteria, but generally, we'd like to stay on their 25%.

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DR: And do, the first sort of tip or strategy and underwriting these deals is to look at the lock-in and apply cap rate to that and value that out versus applying the entire income that's being generated from both the lots and from the homes.

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JP: 'Cause one example is, let's say your lot rent is $300 a month, you multiplied it by 12, that's $3,600 a month. And then let's say it's a 10 cap, that's $36,000 that you're valuing that home for example. Whereas a park on home, if that's an old model, it could be $10,000, that right there is a 3X multiple you're giving on the value. If you treat the income from those homes the same. So that's what you can easily see the more (inaudible) you have and you value that incorrectly, you can grossly over-value profit.

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DR: Any other common mistakes that you see made when underwriting mobile home parks?

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JP: I see our operators kinda blindly using expense ratios a lot of time, and they really kinda stemmed from the fact that they just wanna do a quick back and below Math. So for example, what they could use, alright, I'm gonna use a 45% expense ratio and then just carry that throughout the holder, I've seen them do that. But the reality is as you're making improvements to the park, bringing in the new home to increase occupancy, increasing after improving the property, your income is gonna grow at a faster rate than your expenses.

So if you keep the same 45% expense ratio throughout the whole term, you're assuming that expense is gonna grow at the same rate as your income is going,. So then you're undervaluing the property eventually. So I've seen, I've seen that too. So I would say you can't just apply the expense ratio in every single deal, you actually have to look at what their expenses are.

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DR: For the sake of time, we're gonna forego the due diligence piece. But it's any other advice or strategies or tips that you could share with our listeners as it relates to lead generation or underwriting that might be helpful to them.

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JP: One more thing on the underwriting side, I would say you're gonna work with several different people, it's a team business. One of the biggest, most important thing is going to be your lender. Because you're gonna underwrite to a certain type of debt and stuff like that.

So make sure you build a strong relationship with tanks for a mortgage broker, for example, and make sure you have a very good idea of how the lender do the property because the lender could do the property differently from how an operator could do the property. And they very well, underwrite it differently, slightly differently.

And so make sure you're very clear on what kind of debt you get before you even make the offer. That way you find out you can't get that debt or those terms. You're not in a sticky position where you return dropped and you're like, “Can we do this deal at that point?” Then you're in a very sticky position. So you wanna be, at the time you make an offer, you wanna be very firm on your financing strategy as well.

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DR: Yeah, great advice, have a tight lender relationship and really understanding their criteria and how they're gonna underwrite the deal and make sure that you're in alignment. Yeah, critical.

Jae I really enjoyed our conversation. You've shared a lot of great insight. I wanna start winding down here, I got a few questions for you before we end the show. The first is, what's some daily habits that you've developed that have helped you to be successful?

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JP: That's a good question. I would say this is not even work-related, I just like to get my body moving and exercise in the morning because I think part of the thing about remote working too, is it's so easy to be always working, like being attached to your work because there's no separation of your office, our office, and bedroom. So I like to try to keep that separate. I try to have my work set up separately from my bedroom. I'm totally separate, and I always like to just get out and get a workout in and before the work starts.

But also what I would say is, I like to plan my days before the actual day starts. So the night before, the evening before, I would plan out what I wanna do the next day. And then Sundays, I would plan out for the week. And then every day you have new stuff come up, you tweak it a little bit, but let's say the planning for that day actually starts a night before.

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DR: I found the same thing, those two things sort of getting clear the night before on what you're gonna execute on the following day and getting up and getting after, getting your body moving. Working out. That's great.

Last question for you before we end, what are some ways that you and your team are preparing for a potential downturn?

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JP: That's a very good question. I'm sure a lot of your listeners can have that in their minds too. I would say that's one of the reasons why we like the MH spaces as well because before we even decided to go into this asset class, we looked at several different asset classes and we compare it to how do all these asset classes perform in a downturn. We look at asset classes that performed very well.

And mobile home park space was one of the asset classes that were one of the top performers, and that as the classes. So that we kind of know just from historical evidence, the strength and resilience of that as a class as well. One way to do that is to really staying true to your underwriting fundamentals. You're gonna be in situations where you're gonna have other buyers, you can just pay a lot more than you can pay. And maybe they're underwriting the dealwere completely different way is either you could be, you're not underwriting do correctly, or the other group could be underwriting way to aggressively to win that deal.

So I would say stay true to your fundamentals, stay conservative, point in time the downturn happens, you have room and you're in the underwriting to make up and still have a successful exit.

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DR: Well, it's been a pleasure to have you on the show. Thanks for sharing a little bit about your journey in working for Uber on the global strategy team there, and your really natural transition into the real estate space and working with Open Door Capital. Thanks for sharing some of your strategies and tips and tactics as it relates to lead generation, analyzing, underwriting mobile home parks.

What's the best way for our listeners to connect with you and learn more about what you and your team have going on?

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JP: Yeah, definitely. I would say our website, the company is odcfund.com. That's o-d-c-f-u-n-d-dot com. Personally, my email address is jae@odc.com. That's just my first name. I can also be reached out on social media like Facebook and Instagra, and also LinkedIn. So feel free to shoot me an email or reach out on social media just to reach out if you have any questions about the space.

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DR: And we'll have a link to those in the show notes. Again, thanks for coming on, and thanks for sharing some of these strategies with our listeners. And we look forward to connecting with you again down the road.

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JP: Absolutely. Thanks for having me, David.

[END OF INTERVIEW]

[OUTRO]

0:29:41.0 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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