EPISODE 1214

[INTRODUCTION]

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Victor Cuevas (VC): It would be consistency. You have to be consistent and persistent in what you're doing, decide on what you like, and just be consistent and persistent on it, and you're gonna be successful.

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Sam Rust (SR): This is your daily Real Estate Syndication Show. I'm your host, Sam Rust. With us today is Victor Cuevas, a real estate industry professional with over 30 years in the mortgage industry. He's got a lot of extensive knowledge in both residential and commercial properties, and is currently serving as the founder of Griffin Crowd and Capital. Victor, welcome to the show, thanks for joining us today.

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VC: Thank you. Thanks for having me.

[INTERVIEW]

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SR: Victor and I were chatting a little bit before the show. And you mentioned that you guys focus on Western states, you just landed the ability to grant mortgages in Colorado, pictures out of California, and we were talking about just California in general, the headlines would have you believe that people are leaving in droves and capital is looking to leave California, but Victor, you have a little bit of a contrary intake on California in general, would you mind sharing with us generally, your perspective on investing in California.

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VC: Yeah, what I do, I mean, being a California native, I mean being in the industry for over 30 years, there is a lot, I am a contrarian as far as California and investing in California, because I see all the opportunities that are out there. I'll give you an example, right now of the development in California, especially in the L.A. County, so with this thing right now about the conserving energy, and fuel efficiency, the cities are trying to drive people to use more of the metro system in all the inner cities, and L.A. is very new with the metro system unlike New York, so there's a lot less people using the metro system around the county, and to promote that, they've laxed construction restrictions in the alley in certain corridors and the corridors are where, around where the metro system of the metro lines lie, and what it is, is that they're allowing for more building and less parking requirements, so that the idea is that people that live there can live there, but then use the metro system. So we've been coming across a tremendous amount of opportunity when it comes to development where we're buying, for example, two units in a 10,000 square foot lot, and we're putting 20 units on that same lot because of the lighter restrictions, which opens up a tremendous amount of opportunity, if you know where to look. The corridors I'm talking about it, you gotta know where these corridors are and where these restrictions are being laxed at, and it is really, really good because of what we're doing or how we engage our investors and what we offer investors. On our projects we give up to 75% ownership, if it's an equity stake that the investor wants to do, and as far as debt we offer as high as 10 and 12% return on debt investment, and it's because of these opportunities. I mean it's just been great for us right now. That's our take right now, our advantage. And then when you come into the ok, you're saying how about student housing, there are certain universities and like for example, USC here in California, a tremendous amount of opportunities around the USC area to buy properties and develop student housing, but you gotta know about the requirements or what they allow you to do. But it's very, very good.

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SR: I think that's something of a misnomer or maybe just people painting with a broad brush, but I know I'm in the Colorado market, and we tend to invest in areas across the Rockies, which are a little bit more business-friendly, I would say broadly in California, and there's this idea that it's impossible to make money in real estate in California or if you're investing now, and that's just simply not the case. The rules are different, and as you were kind of explaining your thesis on California investing, you've mentioned the rule, the corridors, the places to look, it really is very niche. And yet, in those niches, you guys are finding a tremendous amount of success.

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VC: Tremendous, tremendous amount. So, we have groups of, in my company, we have groups contacting homeowners in these certain corridors asking if they wanna sell the property. If they don’t wanna sell perfect, we'll partner up with them. They put up their property as the investment at the true value of the property right now at the current time, we put up the money of a construction and the build-up and become long-term partners, which allows us to help somebody that doesn't have the experience, they don't know any know-how as far as the construction were to go, what they can do. We've been fortunate to do several partnerships with homeowners and did not wanna sell, which is fine, but they didn't know the opportunities that they have in their same property.

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SR: That's fascinating. I have not heard of somebody doing that before where you're bringing them in as an equity partner, now, are these homeowners? Are they people who own rentals? Is it all the above?

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VC: It’s homeowners and people who own rentals. We’re looking in these corridors, we’re contacting homeowners to see if they were interested in selling at all at today's market, which is a good market, and if they're not, we take that value and use that as their investment into the project, and it's a win-win for everybody, because they get to, all of a sudden, there's three or four units or two units, now become 15, 18 units that receive rental income and a higher value of equity. That's awesome, I love that because I get to help people that have no idea they can do this previously.

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SR: Yeah, you're converting that property into its highest and best use. Now, you're also dealing with a subset of people who generally are not very aware of what you do in the real estate realm, so I would imagine that there would be some barriers, just even broaching that conversation, how do you bridge that gap and build trust with people, to enable a partnership like that to happen, 'cause ultimately, they do have to trust that you're going to see the project through, you're gonna bring the right capital. What does that process look like?

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VC: It's a good question, and it's more of educating, it's more of meeting and just getting the trust and showing actual projects that we've already done, and then feeling comfortable that, yeah, okay, I see it because a lot of these homeowners, they see that there are properties getting built down the street, but they don't know what's going on. And then when I come around and I tell them what's going on and how we could partner up, their eyes just open up to all the possibilities, and when they don't have to invest any more money into the project other than the value of the property, it's huge! So, I can now own 20, 25 units in a building where I only have three units. It's amazing, it's awesome. So, what we do, my financing background really comes into play a lot. What happens is, since we have a financing for the construction and they come in with the value of their property, once it is completed and rented out, and believe me, it doesn't take long to rent them out, then I refinance them, they get all the value of the property, we get all the construction money back, and now we have a property that’s getting monthly income and we have still equity in the property.

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VC: So now, every month, the person that was making maybe $1000 a rental income, it's not getting many times over that with a high equity stake into a property, so going back to the question, it’s educating them and showing them in actual facts and actual numbers what's gonna happen or what could happen in that property that they own right now.

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SR: When you guys are determining the back-end partnership splits, is it as simple as you calculate the value of the land and then however much cash you have to put up, and that split is the equity split?

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VC: Exactly, it’s very simple. There's no magic to that. The numbers don't lie. And it is what it is. When we have a partner that wants to participate, then what happens is we find out exactly what we're allowed to build according to the city, then we determine at that point, are we gonna sell the property once built and rented, or do we keep it long-term and the best place to keep it long-term. Because it's why get rid of that cash cow when you can have this income coming in for as long as you want. And in the agreement, we revisit every five years what we wanna do with the property and it has to be an agreement between us and the partner that what they wanna do maybe, so eventually they're gonna wanna get bought out, maybe they're gonna buy us out, it doesn't matter. Still, it’s a good play for both of us.

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SR: And I would assume that you have those exec clauses written up, so that there's a pre-existing agreement, and if one party wanted by the other out, you would have an independent valuation, etcetera, etcetera.

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VC: Most definitely, yes, yes. That's what we do. And then again, going back to my financing background, because we have close ties and we find our own commercial loans as well, it makes it very easy. It makes it super easy. For example, the project that we just got, which is closed on last week, it was 1.1 million, we financed, 600,000 and only asked for investors to come in for the 500,000. When it’s all said and done, this property is gonna be valued at 4.6 minus the construction and the original payout. But it's all financed after that, so we don't ask for large amounts, we're not taking the full 1.1 from the investors to buy the property and then another 2 million dollars to complete it, we're not going back to investors over and over, we're using financing, so we're using the investor part of financing, institutional financing, and it's easy for us because we totally understand the financing part of it.

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SR: Yeah, having that vertical integration to that realm, it's such an advantage for you guys.

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VC: Yeah, it's one of the advantages working with us because we have those and everybody that works for us, I've been in the industry, I have people that have been in the industry for 36 years, 30 years in financing and commercial underwriters, we're actually a mortgage bank doing investment funding as opposed to what other ones that we've seen in the past, where, for example, you might have, let's say, realty or whatever, tech people going into the commercial funding and funding or crowdfunding, and they have to hire people to cover the holes that they have or the other way around, which is I think is a big, big advantage.

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SR: Having that real estate background, it's really important, there's so many niches, like we were talking earlier, you have to know the corridors, you have to know the building codes. We were looking at a portfolio of properties in the L.A. area here recently. Somebody who was telling me that if you have more than 16 units in a property, you have to have an on-site leasing person. I'm just curious for my own education. Is that true, or is there any restrictions around number of units to property manager that you run across?

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VC: It's true, and it's mostly because of the servicing to the tenant, if you don't have somebody there it's gonna create chaos. Property's not gonna be maintained, things are gonna happen in that property, there's so many things that can go wrong so it's the best thing to have property management. Now, on-site, that depends on the owner of the property, but property management, definitely, for sure.

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SR: So, you require that property management, but not necessarily on-site.

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VC: Not necessarily, I would do it from 15 units and up. Have on-site management only because it's the best thing to do to keep up and maintain your property, your asset in a good shape and prevent issues from happening. And it all depends on where the property is located.

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SR: Yeah, that obviously plays a huge role, are you trying to deliver a white glove treatment in your Beverly Hills, are you somewhere else in more of a working class neighborhood and people are concerned about maintenance requests, etcetera, etcetera...

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VC: Right, right, exactly.

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SR: So Victor, you've got a very career in real estate, it seems like as I was digging into your background, that's kind of a constant and you're just dealing with real estate, whether it's from the debt side or the investment side or the development side, you've done a little bit of everything, and you've also been through a lot of market cycles, what's the key to your success to longevity in the industry, what would be a principle that you would pull out is directly responsible for your success?

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VC: It would be consistency. You have to be consistent and persistent in what you’re doing. Decide on what you like, and just be consistent and persistent on it, and you're gonna be successful. This is my second mortgage bank that we own, so the first mortgage bank, we bought it back 1994, and we started with two loan officers, and we grew it to 288 loan officers and 36 branches in the western states. I stay in the western states because we have a certain way of funding, which is not like the eastern states, we have as escrows and titles where Eastern is attorneys, wet funding as opposed to dry funding, right, so we concentrate on the Western states. I've always done it, and I closed all my offices in 2007 after the financial crisis. I had to because there was such a big turn, everybody got it somewhere or another, we didn't have bad loans or anything like that. It was hard for a lot of people to adjust to the new market. The subprime went away and everything went away, we were still approved for FHA direct indoors lender, we took that off, that company from really nothing to what I just mentioned, I had to close them down and I was spending too much money and I was spending 10 dollars and getting two back it wasn't making any sense.

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VC: So I closed all my offices, gave a couple away and just kept the corporate company. Then I started just I said, ok, what's going on now, because it wasn't so much credit being issued, the big opportunity at that point was commercial properties. I was buying based on terms, people need it to sell, but they couldn't because they couldn't get it financed. So, I would come in and buy on terms, I would pick up 25 units, 30 units to what, 10% down, the rest was seller carry bag and taking over the note, and they just, for whatever reasons they were, they didn't wanna continue with that project, so I would come in and take over the property, so I took over a lot of commercial property during that time. But then at the same time, I was getting people asking me, are you gonna come back are you're gonna be a lender once again. Or, what are you gonna do? So I got bit by the bug again, and I started, I went out and I bought a mortgage bank, it was already existing, I did not wanna start from the very, very beginning as a broker, so I bought a mortgage bank, had already had a history.

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VC: And then that's the second bank that we had right now, the mortgage bank, but I took a different approach on this bank because the first one I was opening up branches, filling up with agents, and you know the story, you have 15 agents, but only five of them are really working. There's a lot of exposure, a lot of expense in that, so what I did now that we went a lot into social media marketing where I'm investing in my loan officers and helping them and their partners generate more business, so in turn, we get the long back. We're doing the same amount of volume that we were doing before with 36 branches, which is 20 loan agents, we're doing quite a bit and much, much better and more efficiently than the very first one, because we're working directly with the loan officers and really helping their partners generate more business by social media. So, that, it was a totally different change. And then we have a call center for Spanish-speaking people, we have a call center for Chinese people, and a call center that's concentrated on Filipino, Tagalog. So, we have different markets, different call centers, it's more efficient the way I'm running that now. But the thing is, I didn't give up. It was persistent. It was consistent, I have to continue and everything that I do, I try to do in the realm of real estate. There's so many opportunities right now, so many businesses that you can buy, so many ways that you can go. But it's very distracting. I've always stayed just in the mortgage banking. Our next step would be to buy an actual commercial bank.

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SR: Is that what you're aiming at? Is that the next step for Griffin Capital?

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VC: For Griffin Capital, it's its own fund and we're on investments, but that's connected somehow with the real estate lending side of it, 'cause it's connected, it's interconnected one way or another.

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SR: As you were describing all that, Victor, consistency, persistence, very important. I think that's a common thread to people who have success over a longer period of time, but you also are problem-solving, I thought that was interesting, like you've re-imagined it in a couple of different ways, you've adapted to the times you were doing owner carry, you're now doing interesting partnership models around transportation corridors, what do you attribute that skill set, not everybody is able to solve those types of problems or think in an inventive way, why you?

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VC: What I've always done, you have to look ahead, you have to see what's going on, you have to always kinda like, it's kind of hard to explain, but I always see ahead what's happening, what's going on, how am I gonna adjust to what's going on like right now, you're saying, o kay, what you

see right now is the market is so high in value right now. When is it gonna pop, when is it gonna change? When is it gonna adjust again, and when that adjust, now it's gonna be a buyer’s market, not a seller market. How are you gonna prepare and adjust for that, what's gonna happen when that happens, when it becomes a buyer's market, and what opportunities does that bring? Just kind of have to look at, I guess, it’s experience, it's gone through these financial adjustments, I've been to maybe two or three of them already. Since Charles Keating was the very first one back in the same as in older industry, I don't know how old you are, but you know what I'm talking about, right?

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SR: Yes, I've studied history, I was not around then, but yes, I'm aware.

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VC: All that. And the last one to the persistence and consistence is action, you have to take action. You can't just talk about it, you have to actually take action. I've always been taught, you always have to have a goal, you always have to have the blueprint. where you gonna start where you're gonna go, you have to have that roadmap. Then it's a persistent, consistent, and action. If you don't do any one of those three or all three at the same time, you're not gonna make it. But as long as you do those things, I've always seen that you will accomplish what you want.

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SR: Having those three things in concert, really important, are you gonna be consistent in taking action, are you gonna be persistent to keep it up over a long period of time, and then are you actually taking action. It's not quite as simple as mixing these three things and it'll be wildly successful, but people tend to over-complicate it. It really is not a function of having the best ideas, just, hey, can you be consistent and show up taking action.

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VC: Yeah, exactly. It shouldn't be that complicated. It really isn't. If you really think about, why haven't I done something, you'll have the actions, one of those three. You either weren't persistent, you weren’t consistent, you didn't take action.

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SR: At an interesting point in the market cycle, Victor, you've seen several of them, what are you watching? You're in the mortgage business, you see a lot of those loans being made, your interest rates have picked up a little bit, the tenure has been somewhat volatile, as we're recording this toward the end of January, what do you pay attention to that would tell you that, hey, maybe the market conditions are shifting at a macro level.

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VC: Again, going with not making it so complicated, if I start listening to the news, the sky is falling every day, so I try not to do that. I do look at it, but I don't go off of that. I go off of the street, I go off of what's going on in the business right now. What I see in values, what I see in the long transactions going on. The real estate agents telling us that how many offers are you getting and multiple offers in certain areas, that's what I look at, I look at the action. What's really going on? Because even when rates are up, that doesn't mean business slows down, it means an opportunity. Just shift it. And you have to see, how are you gonna take advantage of that opportunity? So, people say right now, as far as lending goes, they say rates are gonna go up, everything's gonna slow down. Well, no, what's gonna happen is people are gonna think, hey listen, let me buy something before rates go up. It's gonna be those wave of people that wanna buy before rates go up higher. You can't just go off one way of thinking, you gotta look and see what's out there. What's the difference out there?

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SR: Fantastic. Well, Victor, if folks wanna learn more about what you're doing and how they could potentially invest alongside you where can folks find you?

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VC: griffincrowdcapital.com is our main site, you can see some of our projects there that we have and some that are coming out onboard. What's going on is that we work with the credit investors, that's what we have. Our fund, is set up for credit investors. So, that is the main side. Otherwise, it's victor@griffincrowdcapital.com, or you can call me direct at 323-810-9568. We could chat. Let's see what you wanna do, see what you're interested in, and see if what I'm doing interests you at all.

0:19:27.0 S2: Fantastic, well, Victor, thank you for joining us on the show today. Thank you to our audience for joining us on another episode of the daily Real Estate Syndication Show, this is Sam Rust signing off.

Whitney Sewell: Thank you for being a loyal listener of the Real Estate Syndication Show, please subscribe and like the show, share it with your friends so we can help them as well. Don't forget to go to LifeBridgeCapital.com, where you can sign up and start investing in real estate today. Have a blessed day.

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