EPISODE 1274

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

0:00:24

WS: Our guest is Ivan Madrigal. Thanks for being on the show, Ivan.

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Ivan Madrigal (IM): Hey, Whitney. Thanks for having me man, it's my pleasure.

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WS: What's your suggestion as far as moving then into finding that deal or is that where you found a partner that's working on that or were you looking for deals as well or did you wait till you had a certain investor base or a certain amount of soft commitments, what was your plan there? Or maybe from your experience, what would you suggest somebody else do?

0:00:49

IM: Well, have a platform, you know, whether it's MailChimp or whether – however, you want to do it. You can handwrite it and have those self-commitments per se from those investors, "Yeah, if a deal like this comes across, I'll invest." Try to have an idea of more or less in what range would you invest between 25 and 50, between 50 and 75, between 75 and a hundred.

The more you know from these investors, the better it is. That goes as far as knowing whether they will be accredited or not accredited and the more you know, the better. If you don't know that and that's fine too but at least, have some sort of idea of how much they can commit if the right investment comes across. And then you start creating your database. Like I said, whatever you choose you want to create, I use MailChimp for my mailouts and for my reservations and investors to register. I use a syndication prompt.

That's the platform I'm using with [inaudible]. That's how I have my investors, I have them go into my website and go create a login and register on my website on that platform. I keep tabs through that platform syndication prompt. It could be done through anything because you could do it manually if you want to. I've heard of someone that actually had a notepad with names of people written down and things like that. By all means, you can do it any way you want.

0:02:09
WS: Do they actually mail letters too? I'm just kidding. I liked how you said you ask — you might ask an investor like a range and I've heard that said before too. You know, because it's different than you say, well how much are you willing to invest? You know, that's a lot different question than what range are you looking to invest in? You know, it's like not as much pressure, is that what you've experienced?

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IM: Well, I like to have a range so I have an idea of how much money I could raise and a particular time. As I said, this is what I found out and recently, I'm learning the ropes a little bit more intricate on raising a lot of money. Because you can raise 200, $300,000 without a problem. Probably with the people you know around, friends, and what not but if you went out and raised a lot more money for a bigger deal, you really need to have a database of people because there's always going to be those that tell you, "Yes," but then, "I'm tied up," and you're in there.

"I can't come up with that much liquidity that quickly now," or whatever the reason may be, and not all deals are the same and not all investors are the same so investors want to keep their money tied up in a deal for four or five years and then some might want to keep it there for longer and the deal you might find might be a deal that doesn't have an exit strategy for 10 years instead of four or five.

With that goes also knowing those investors as well. This guy still wants to be tied on the deal for 10 years and this is the 10-year play, I am not even going to bother. Or I end up telling him, "Hey listen, I know you don't want to be tied down for so long but would that be of interest?" But knowing beforehand, what their objectives are is also important.

0:03:46
WS: Tell me the asset classes that you all are looking at now and how you're sourcing deals?

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IM: We're looking at modern family and mobile home parks, those are the two asset classes that we look at, we send mailouts and we make phone calls and we've gotten a lot of

responses from mobile home parks, back to us, owners calling us. We just keep stumbling upon the mobile home parks, I love the asset. That's the one that we are concentrating the most on right now and there are a lot of factors on why we concentrate a little bit heavier on that.

0:04:16
WS: What size properties are you mailing to?

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IM: It's 60 plus lots, we mail to those and we make phone calls, we personally call a lot of park owners and position ourselves as we want to buy it, we want to buy the asset and we create a follow-up, and all that kind of stuff for those that are not ready at the moment.

0:04:35
WS: Wow, okay. We briefly talked about it before, just the type of response you're getting from multifamily owners versus mobile home parks.

0:04:44
IM: Man, it's incredible but I get more mobile home park owners, receptive to selling the multifamily and that's my experience it is not to say that that's the way it is. That's just my experience. It's also I found it a little bit easier to get across a mom and pop, that owns a mobile home, than multifamily, multifamily owners seem to be a little bit more sophisticated, they own it through corporations and things like that.

And thee mobile home park space a little bit more fragmented so I've seen in my experience has been a little bit easier to getting hold of those mobile home park owners, mom and pops that have been running the park for 15, 20, 30 years. And it's just a lot simpler to negotiate with them.

It's not such a hype even though there are a lot of people back concentrating on the mobile park now. Still doesn't carry that hype that multifamily carries, the family seems to be like the flavor of the day kind of thing. A lot of people are pushing to buy those assets and that's what happens when you got a lot of interested parties that turn to push the prices up.

0:05:41
WS: What are some initial things, you know, whether it's multifamily or mobile home parks, or you can pick one or the other that are like an initial deal-breaker, you know? Either you're talking to a seller or you get some numbers or you're talking to a broker, either one, but some initial things that are going to say okay, this is not the deal for us.

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IM: So many things. I mean, it depends. On the mobile home park.

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WS: Or maybe some things that it has to be. You know, maybe it might be a better question, some things that have to be there, you know, just a few key things, maybe before you decide to really dig in deeper.

0:06:13
IM: Yeah, on the mobile home park space, we look for parks that are in a large metropolitan area or close to it. We're looking at median income, kind of similar to multifamily – you look at the median income in the area, the population size, we like to see that there are certain amenities within that community, within the immediate five, 10 miles around, you know, like Walmart, Lowes, things like that and we're not in the mobile home park space, we don't like parts that are heavily involved in owning the homes.

That is a deal-breaker for us unless we feel that there is a good chance to turn those around and sell them, that our idea of a home park is the one that the owner of the park does not own any of the houses. The tenants own the houses and we're just in the business of renting the lots. That could be a deal-breaker, along with the other so many other things like the deal breaker.

0:07:02
WS: What is the plan if you know, if it is a 60 lot property and let's say there's five that are owned by the seller, or the current owner, is your plan going to be to get rid of those or maybe even finance those for the current owners or residents or is it going to be to wait till they move and then just get rid of those or put them up for sale, how does that work?

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IM: You could do rent to own to the existing candidates there or you could do straight financing, if the tenant is willing to buy it, a lot of times, buying it will be cheaper than renting the home itself. You're searching for a way that enticing for them to do it but sometimes you'll be surprised if people don't want to own, they just want to rent, right?

The plan really is to initially approach that tenant that's there and try to work out a deal where they buy that from you and they only pay you a lot of rent, right? But if the tent doesn't want to buy it then of course, when they move out, you try to find someone that's willing to buy – there's a lot of variables to that, the age of the house and things like that have to sometimes, it's a very old house and of course, I don't want to buy it, so it all depends.

0:08:07
WS: What's a way that you all have recently improved your business that we can apply to ours?

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IM: Recently we hired a VA. We found that the amount of time that we were spending cleaning up the list that we got from the municipalities numbers out of the counties, cleaning those list up, and doing all the research that needs to be done to find the owners' information and things like that, that time will be utilized and things that are literally more important. So you can hire a VA for a very little amount of money, not too much and they could work three, four hours a day, three hours a day, 15 hours a week.

In our case, ours is working like 15 hours a week and then they do all the of that work. We gave them a bunch of lists broken down by county and said okay these are the parameters, this is what we need then here's how you find it. Go ahead and clean this list up and just get me the properties that meet this criterion right here. [inaudible] and the information that I want, everything, we gave them all the criteria and so we don't have to spend time on that. We will be concentrating on the things we do. That's working out pretty well for us.

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WS: Awesome. I couldn't recommend enough, somebody to hire a VA. I've used them many, many, many times now but what is your best advice for taking care of investors? Maybe other than communication.

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IM: Don't just do a deal to do it, be patient, and make sure that you do the right deal. In today's market, there is so much hype going on with real estate and syndication and things like that and nobody can play the numbers, if they don't work, don't work. Don't do a deal chasing that carrot because you're not going to last long if you do that. Investors eventually are going to catch you up and say you're not doing this right, and never invest with you again.

[INTERVIEW 2]

0:09:43
WS: Our guest is Joel Block. Thanks for being on the show again, Joel.

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Joel Block (JB): Hey, Whitney. How are you?

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WS: Doing great. Doing great. Thanks for being on the show again and taking time out of your busy schedule. Well, you've probably heard of Joel's name before. He's been on the show, WS46. I would encourage you to go back and listen to that so you can learn more about him as well. I mean, he's someone that's been in the syndication and hedge fund business for 30 years. He's got tons of experience in this business, and I'm looking forward to getting in this conversation today.

But a little about him, an American business executive and professional speaker specializing in topics of real estate, finance, and sales. He assists attorneys in complex litigation cases involving real estate, securities, and alternative investments. Block's roles involve consultation, litigation strategy, and expert testimony. Block has been sighted in media and press outlets, including Entrepreneur, The Los Angeles Times, Wall Street Journal, Forbes Small Business, San Fernandino's Valley Business Journal, Investors Business Daily, Los Angeles Business Journal, and the San Antonio Business Journal.

So he's done all of these. He's been in this business as long as anybody I know probably, and he's done – I don't know, how many hedge funds. I mean, he knows the syndication business inside and out.

Also, I'd like to mention, he has a great YouTube channel you should check out, and he'll tell you more about it as well I'm sure, especially at the end of the show, and tell you how to find that where he answers all kinds of listener's questions. So people submit questions to him, and he'll make a YouTube video about it and explain in detail the answers.

Joel, thank you again for your time today and give the listeners a little more about who you are possible because it's been so long since you are on the show, and then let's dive right in.

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JB: I've been in the syndication hedge fund business for almost my entire career in some capacity. I was in venture capital for many years. But all these businesses are really the same because you raise money and then you place the money into some asset with the objective of giving the investors their money back, plus more, and that's really what we're all doing, and whether we're doing it in real estate, whether we're betting in ventures, businesses, films, whatever we're doing. To me, I look at it all the same.

So I came from the CPA business. I learned this business when I was a youngster at Price Waterhouse doing tax work for a giant real estate syndicator. I hated doing the tax work, but I love reading the partnership agreements and I said, "That is the business I want to be in. I want to be a deal maker just like those guys." So I quit the firm and I and another guy did a little tiny apartment building in the late 80s and I've been involved probably in 40 or more deals thus since then.

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WS: Nice. So as we were talking to beforehand and looking through even some of your videos. There are numerous questions on there that people have sent to you that it'd be great to cover today, and I look forward to getting into a couple of them. What is the difference between a retail investor and a professional investor? There are probably listeners that really haven't heard that there's a difference or what that even means at all. So I'd love to just you to elaborate on that and our talk through that a little bit.

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JB: Sure. Listen, you can pick any of these that you want. Here's the thing, 99% of people are retail investors, and that means they buy their investment from somebody else and they sit around and they're used to having absolutely no control of the outcome. So what happens is they'd buy something and they hope that it goes up. Professional investors do not hope anything happens.

When our car runs low on gas, we don't bang on the gas tank and hope that it springs back to full. That's just not what we do. What we do is we activate a strategy, we run into a gas station, fill up the tank and keep going. That's what professional investors do. Very, very different from retail investors. That's not to say that there are a couple of really good retail investors out there.

But for the most part, the pool of retail investors just doesn't have a lot of insight. They don't have a lot of information. They don't have a lot of ability to really control what happens. The whole syndication business, the fund management business, the business that we're all in together, is we control a lot of what we do. Now when you bet on deals in the stock market, you have almost no control. I mean you really are just doing your best guess whether it's scientific, algorithmic, or whatever it is. But in real estate, we have a lot of control. And professional investors do a really good job of controlling the outcome of an investment.

If there are 10 houses on a street, one is underpriced, it's almost like that house up lights up in green for those of us who are in this business and we know what we're doing because we look at it. Every house is worth 100, and we combine this one for 50. It's going to cost us 20 grand to fix it up. 5 grand to sell it or do whatever we're going to do, and we're going to net 25, and we can do that over and over and over again with great accuracy.

A retail investor just can't do that. That's something that professional investors do. And that's the reason that this whole industry exists, is that retail investors want to get on the coat-tails and ride us into the sunset, because they'll give us their money and share the profits because we know how to do things that they don't know how to do, and that really at the end of the day is the big difference between retail and professional investors.

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WS: Yeah, I mean that's really our passive investors are limited partners is. I mean they're busy doing their day job or that they're really good at, or their business that they're focused on every day, and they don't even want to know all the ins and outs of the real estate business or funds of any kind. But like you said, they want to know that person like us that does and that has control over that investment.

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JB: Sometimes they do want to get involved, which doesn't usually work out well for them. But what's interesting about what you just said is that these are passive investors, and a lot of people, especially the real estate promoters, and people selling courses will call everybody an investor.

It's not accurate to call everyone an investor, because there are passive investors and there are active investors. We are active investors. We take title to the real estate. We actually work the real estate. We do the job that we need to do. By the way, whether it's real estate, film, entrepreneurship, whatever it is, whatever category, it doesn't matter, because the money works no matter. I look at money as a tool. To me, it might as well be a shovel or a hammer, and I use that money to make more money.

Regular people don't have the same kind of relationship that syndicators and money managers do. In fact, one of the things that I always say is that the money is not made in real estate. Everybody thinks it's real estate. It's not real estate. The money gets made in the money, and if you control the money, you can buy all the real estate you want. So you have to control the money in order to move along and do what it is that you want to do.

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WS: Oh, like looking at the money as a show. Well, I haven't heard that analogy before. But talking about how money is made in the money. You have to control the money to be able to buy the real estate like you said. I mean, it's smart. So it's really looking a little deeper.

But thinking about those different types of investors, I noticed another question too that someone had asked you all and I thought you could elaborate. It's like that family versus outsider. Which one of these types is the best investor when we're syndicating any kind of commercial deal?

0:16:21

JB: Like everything, there are pros and cons. So should you go get outside money or should you get family money? Listen, almost everybody starts with family money, and the reason they start there is because that's the low-hanging fruit. When you first get organized, you probably have a mediocre track record, and then we have a light track record. You don't have a lot going on. Your family is probably going to overlook that because they're going to try and give you a leg up as best they can. If something goes wrong and they're probably going to give you a little easier time.

That doesn't mean that your own grandmother wouldn't sue you under certain circumstances, and that happens. By the way, that's the reason that you need a private placement, a legal document, and all the stuff that attorneys prepare, and I'm no attorney, but all these documents that attorneys prepare, because it really tries to slow down the lawsuits and tries to prevent you from having these problems. That is whether you have one investor or a hundred, and it doesn't matter if that investor is your grandmother or a stranger. Anybody could cause lots of different problems under some circumstances.

Go back to family versus outsider. Families are a really great place to start. I don't know how much money your family has. If they have a great amount of money, that's fine. The truth is though if you rely on your family, you never really build a business. It may be very simple. It may be more convenient to do it that way, but it's not really a business, because you don't have outsiders that are third-parties or kind of arms-length giving you capital.

I will say though as you start to move away from your family unless your family has extraordinary means, you start having the ability to leverage the track work that you've built with your family money into bigger deals, bigger opportunities where you're raising more capital for more people, and then you really start to create a base of people that is much larger, much more diverse and then it's going to serve you way into the long term. You don't want to be concentrated with one or two or three investors. You really want to spread it out.

There are people, kind of the ancillary question to family or outsiders, is should you get a whale, a giant investor, or a bunch of small ones? Certainly, it's probably easier to get a whale, but that whale is probably going to exercise a lot of control over your business, whereas a bunch of small people will not. The other thing is that whale if the person has a temper tantrum or a bad day or dies or something happens to them, tipped by a bus. Your whole business goes away.

You don't always want to take the shortcut. Sometimes doing it a little harder is a little better, and you just have to do it the right way that works for you.

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WS: Yeah. It's the idea of like having all of your eggs in one basket, isn't it? One large investor. We want those investors, of course. But I appreciate how you say it. We don't just want that one.

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JB: Here's the thing, is that let's say if I'm one of these big guys. You'd be better off to spread that person across five deals. Instead of getting 5 million in one deal. Spread that person across five deals and a million a piece. Limit the amount of control that that person has in any single deal so that they can vote you right out of business and control everything.

I mean some people would say, "Well, even syndicate? I got this big guy that's just going to give me the money." Well, here's the thing, is that that guy is going to probably demand that you take all your profit on the backend, which is fine. But syndicators typically get paid in two distinct ways. One is for being smart, which is your backend profit, and that's fantastic. That's how we make the majority of our money. But we also have to keep the lights on. We have to take fees for our time.

So if you got a higher real estate broker, that real estate broker might as well be you if you're properly licensed to do that in your state. If you need a property manager, you could hire one, or might as well be you, the promoter if you're properly licensed to that in your state. If you're going to need a repair and maintenance company, there's no reason you can't set that up. As long as you're disclosing all of these things in your operating agreement to your investors, you're going to be okay, and that's what attorneys do, is they lay these things out so that you're properly
organized.

Large investors are simply not going to allow you to take those fees. And partly they do it sometimes to be a little bit mean-spirited. They want to cut the thumb on you a little bit, because sometimes if they can squeeze you, they may end up making a little more money that way until you got a business. So you really have to think about your long-term business interests and not necessarily do what is easy in the first five minutes of your career, because the patterns that you set up are going to last longtime and they're going to serve you well if you do a good job.

[END OF INTERVIEW]

[OUTRO]

0:20:36

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