EPISODE 1308

[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 Matt Picheny. Thanks for being on the show, Matt.

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Matt Picheny (MP): Thanks Whitney, it's a pleasure to be here.

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WS: Matt is a managing partner at MJP property group, a real estate investment company with over 15 years of experience, he has invested over 5,000 units and is primarily focused on acquiring and repositioning multifamily communities.

Matt, a pleasure to meet you, and a pleasure to have you on the show, thank you again for your time, give us a little more about your background in real estate and I know, a lot of our focus today is going to talk about your journey because I know you've made the path or the journey that I think a lot of the listeners are – numerous listeners are contemplating as well.

I think they're going to relate to you and your story but let's go back to – how you got into real estate and why multifamily, why investing, and syndications?

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MP: Yeah, sure. Well, if we go way back, I grew up in Florida and I moved to New York City, to pursue a career in the theater which is kind of interesting background for someone who is involved in real estate. But I did that professionally for about five years, I was an actor doing shows all over the country and then I went from and sort of segued into digital marketing, the digital marketing world, and worked in corporate America climbing up the corporate ladder for about 18 years in New York, working at different advertising agencies. During that time, I

started tinkering around a little bit in real estate first with a purchase for my own primary residence, and then expanded from there.

I ended up purchasing some land, a vacant lot in Connecticut and then eventually I built a house there, and then that house ended up, the intention was that it was going to be a vacation home for myself and the cost were a little high so I thought that I could rephrase some of that cost that leads at the beginning with doing some rentals.

What ended up happening with the property very shortly after it was done being built was, it became a full-time rental property. That taught me a lot and really kind of put me into a position where I really started to understand real estate, really started to understand the rental market. At that point, I started to diversify into some other things I got involved in some single-family homes, some fixes, and flips. And then, there was a move, my family moved from New York to Miami when my wife, got a really cool job opportunity and it's too good to pass up and that was the time that I left corporate America and we moved to Miami and while we were in Miami, I was doing these single-family properties, I was trying to figure out how do I scale this business?

For me, and then there are people who can scale a fix and flip business or single-family business but for me, I was looking at what my goals were and the lifestyle that I wanted to have. I found that multifamily was a much better way to go. I – that's when I transitioned into doing multifamily and that's when I transitioned into doing real estate full-time was upon that move to Miami which was about five years ago. We were in Miami for two years, we're in Boston, Massachusetts now, we've been here about three.

Once again, my wife completely out of the blue got recruited for another job up here which is why we moved here. We do love the northeast and I'm doing this full-time now I started off — I always have an intention to be active because I have the experience of being active, whether it was in the building of the vacation home or the single families in the fix and flips. I was never the guy doing national construction with the hammer in it now but I was definitely very involved and very active in these projects.

But, when I first started getting involved in multifamily, especially while looking for those first deals, I did was I started investing passively in a number of deals and the main reason for that was because I learned a lot from watching those other owner-operators and seeing how they're operating the properties so I got a lot of experience, sort of through osmosis as being an investor.

Plus, I got the cash flow from those deals when the deals performed well. That's been a great thing and I've also been started investing as – well, started working as a syndicator as a sponsor on a number of deals and so I have a bunch of doors that I am now a syndicator on you know, you mentioned earlier, I have over 5,000 doors that I've invested in. Just to be really clear about that, only about 20% of those deals are deals that I'm decision-maker, principle, you know, on that deal. The other ones are completely passive investments.

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WS: Getting started in syndication though, you know, was that something that at first you were like, wait a minute, I've heard this from other operators or other investors at first too, especially if they have operated some property, they want to be active, it's like wait a minute. I'm not going to invest in some other real estate deal. If I don't have any control over the deal. You know, was that really your thought process in the beginning and that had to change or did you just understand the business model from the beginning and know that was the way you needed to go?

0:05:41
MP: It's sort of two-fold for me, right? On one hand, at that time, I don't know what I would have done if I had control. Because I didn't really know what I was doing, I knew how to do the single-family thing, right? But I didn't know how to do larger multifamily syndication so part of it was learning, I was going to people and investing with people that have a track record, that has been doing this and I'm sure you heard this Whitney and maybe people have said this and any listeners have probably heard this a lot. People, that you know that you like and that you trust, right?

It's all people that I had gotten to know, not some random person that I met at a random meet-up or heard on a podcast once but people I was able to sort of build a relationship with and get to know over time before I handed over a lot of my hard-earned cash to invest in one of these deals and they also had a track record of being able to perform really well. I knew that they knew what they were doing. So I had confidence in them and I also knew that I would learn a lot from listening to them while I was continuing to learn, joined a mentorship group, and did education and all these other things all at the same time that I was doing these passive investments.

That's kind of from one perspective from the other perspective, you know, when we move to Miami, I was fortunate enough to be in a position where my wife had a really good job and I had saved a lot of money working 18 years in the corporate world in Manhattan. And I had also invested in a number of real estate deals and also, my wife is involved in my theater, so we had invested in some theatrical, Broadway shows that were doing extremely well at the time. We had a good amount of passive cash flow that was coming in. And so for me, it was about, how do I amplify that cash flow? For me, it wasn't about, well, I need to control a deal or I need to –

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WS: Was that all from your passive investments?

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MP: I had a number of passive investments and cash flow coming in from that. It was not enough for me and my wife, for our whole family to live off of just those passive investments. I mean, maybe we could eke it out but also, some of them especially we were involved in a Broadway show that was doing really well and it's continued to do really well but you know that at a certain period of time, who can really predict that, it will start to decline.

We didn't want to count only on that and we had other sources, right, of passive income and so my idea was how do I go ahead and how do I grow that passive income and diversify it into different things, real estate and not only real estate but real estate int different markets, right? Am I going to put everything in Dallas or do I want things in Atlanta and Florida and Ohio or Kansas, Missouri, whatever, all these different states, all these different places, different markets, because if one market's doing well, another might be doing poorly so I wanted to kind of diversify the real estate.

And, diversify it across different operators. That's what I did so my goal wasn't well, I want to start syndicating deals so then I'm getting syndication fees which are, I do take on deals that I'm a syndicator on, I put a lot of hard work into it as you know, Whitney. These are the gate deals too. I mean, it's a lot of work that's involved in this. You do get compensated for me, it wasn't about building that up, it was about building the passive income up and that's what I've been able to do such that I don't syndicated deal for a year or two and it's not a problem for me financially. I can really make sure that I'm waiting and choosing to get involved in deals that I think are really good deals.

0:09:33
WS: Nice. Why don't you speak to some of these success tips that you would have for the passive investor that's listening right now that really wants to be an active operator down the road? Some things that you did or maybe things you learned, maybe things you see now that you shouldn't have done, however. That you wish you had known back then, knowing that your immediate goal, the eventual goal is to become an active operator.

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MP: Yeah, for me, I think that it's all about relationships, it's a big relationship business, okay? Now, if you're looking at it, I can talk about that from the passive perspective and then get into the active perspective as well. From a passive perspective, you know, a lot of these deals that are being done are done with the 506(b) compliance. What that requires of the syndicator is that the syndicator has this preexisting substantive relationship with the passive investor.

You as a passive investor, building those relationships, getting to know and meet different people, and different syndicators, and developing that relationship is great. I recently just did a deal and you know, one of my investors that I've known for a little while was like hey, you know, my friend wants to get involved, can they invest in a deal and actually, the deal's already under contract, you can't do that but why don't you introduce me to that person which he since has and have conversations with her, I have gotten to know her, understand her and she knows me, she understands me. Now, the next time I have a deal, she can invest in it.

Building relationships just with other sponsors, I think is really important from a passive investor perspective, so that you can number one be eligible to invest in their deal sand number two, you can get to know them better, who is that sponsor, you know, you're putting a lot of trust in them as a passive investor and you want to make sure that that person's going to be a good steward of your capital. That's really important.

And then as we move into talking about relationships for an active person, someone who wants to syndicate deals is about developing the relationships with the passive investors because you will be raising capital probably for these deals unless you're independently wealthy. But also, how do you get those deals, right? They're sort of two ways. One way is through developing relationships with the brokers and the property managers. That's the route that I've taken. I pick certain markets that I might be interested in for one reason or another and then I go into that market and it usually takes a couple of years to go in, establish myself in the market, get to know all the brokers, you know, there are principles, the 80/20 rule which is basically – this applies to many different things, I was first exposed to it.

I'm a project manager by trade when I work in advertising for 18 years, I was a PMI certified project manager, and as part of that certification process you learn many things and Pareto's principles is one of the things that we were taught. It doesn't just work for real estate but the 80/20 rule, it's basically 80% of the deals in a market will be done by 20% of the brokers. There are really only a few of the real estate agents or brokers that you need to get to know. But yeah, it's good to know all of them but most of the deals, you're going to be done by a small amount of them. You need to develop those relationships with the brokers and also with the property managers.

The first deal that I ever got as a syndicator was because of my relationship with a property manager and they were people that I had met in the market, I had been working with them and I had been looking at a number of real estate deals. When I got to the point where I was ready to make an offer, I wanted to review it with the project management company and during one of those conversations, they said, "By the way, one of our clients that we have, we know is looking to bring a property to sell, bring it to market. Would you like us to introduce you to that broker?" I said yes, and it was really good because that broker was not one of the 20 that does 80% of the deals. This was a very small independent broker who doesn't do a heck of a lot of volume in that area.

I never would have met the person. I met the person I ended up with a deal that's a whole other story but that just talks about building those relationships, that's really important. That's the one way. The other way is through developing relationships with other sponsors, right? Whitney, you and I have started to get to know each other, we're actually in a big mastermind group together. Maybe one day, I'll have a very interesting deal that I like that might be a little too big for me to do on my own, right? A 400 unit deal and there are just so many different moving parts and I don't have a full staff of people working for me, so maybe I need to leverage you, Whitney, and your experience and your team and we can partner together and therefore, take down the deal together.

That's another thing about developing relationships but it all comes down to passive, active whatever the situation is, it's a relationships business, that's I think the most – you know if there's one key takeaway from this podcast, I would hope that that would really sink in for people.

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WS: Definitely a relationship business. Can't stress that enough, no doubt about it. Matt, you know, that first deal when you became an active operator, was that partnering with another operator that you had invested with passively before?

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MP: Yeah, that's great Whitney and you're actually bringing out a little thing that I failed to mention about the partnering with other syndicators. And so this person that I brought on, I am trying to think about it because I have invested in deals that he's a sponsor on but I don't think I had yet at the time, but this person I met through a mentorship group that I was in and this person had done, I think, about 10 syndications and like three – I think about four of them have gone full cycle.

So this is someone who is very experienced and really knew what they were doing. I had been talking with them. I've known this person for about two years and I had been looking at deals and reviewing deals with him for quite some time. So we were very synced up with one another. We actually had a couple of letters of intent that we had submitted and made a couple of best and final rounds and some other deals both in the Kansas City market, which is where this was or also in Florida. We have looked at some deals and got in the best and final there as well.

And so we had developed a great relationship and I had KP-ed on a previous deal that's a key principle — you've probably talked about it on your show before but just for those who maybe have not heard, if you get an agency debt like Fannie or Freddie debt, you can sign on as a key principle and that sort of gives you some credibility, to be able to get one in the future. It is hard to get one if you haven't already done one in the past. So that is why a lot of people will be a key principle on a deal signing as a guarantor on that loan.

It is a non-recourse loan but there is a bad boy carved out where it could become recourse if there is any sort of fraudulent activity that happens. So you are putting your name on the line signing as a guarantor. I had already done that once before so I had a little bit of credibility but my partner has done that many, many times allowed us to definitely get that agency debt and also he has a track record, which was great. I have a number of people that were interested in investing in my deal.

They knew me, they knew I have been involved in real estate from a part-time perspective for about 10 years and then full-time for two years. They knew who I was, I had done business with — they were either friends or business colleagues. So I think they have a lot of trust in me but just having a co-pilot on board, you'll have a ton of experience really just kind of – if they were on the fence to kind of tipped them over the edge of the fence and let them have the confidence in the deal. And so that was key. I don't know if I would have been able to do that first deal without him being my partner in the deal. And we have subsequently done a number of deals together. We have a great relationship and it has been a wonderful partnership.

[INTERVIEW 2]

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WS: Our guest is Luc D'Abreau. Thanks for being on the show, Luc.

0:18:00
LD: Yeah, definitely. Thanks for having me, Whitney. Looking forward to getting into it.

0:18:04
WS: Luc's educational and professional experience is in the architecture, engineering and construction industry. He has been involved with projects valued at over $750 million over the last nine years. He's a limited partner in 445 units across two assets in Texas, totaling $36.8 million. Is part of the National Black MBA Association and African-American Real Estate Professionals and holds a Masters in Engineering from UCLA and soon, an MBA from the University of Illinois.

His goal in real estate is to create generational wealth, leave a legacy and provide a better life for his family. We're going to hear it today, just some of the things he's done to get that started, especially investing as an LP in a few deals, things he's looked for. We will learn from his experience and how he chose, whether it's the GP or the market in different ways that he has been successful in that, in his path moving forward. Luc, welcome again, grateful for your time and for being willing to share your experience and expertise with us.

Give us a little more about your background and just getting in the syndication business and why invest in syndications and why was that right for you all.

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LD: Yeah. When I had finished grad school back in 2012, I ended up reading the famous purple, a yellow book that everybody references Rich Dad, Poor Dad. I kind of had things on my radar in that way already, just being able to do more than simply work in order to have income. I saw things like that growing up as well. I had some exposure to that, but I didn't really have any sort of framework or plans to move forward with that. Reading that kind of definitely shifted my mentality a bit, Whitney.

Then I continued to just get an education, and learn, and read books and — I mean, podcasts back then weren't nearly as big as they are now, but maybe five years ago, podcasts were — that kind of help along the way. I had an opportunity to invest in a couple of those deals in Texas as you mentioned. I knew it was the right time and wanted to move forward with it, because I've been preparing for it, I've been waiting for it for so long at that point it felt like. I jumped into those and the rest is history. I'm still involved in both of those deals. They haven't gone full cycle yet but those are doing well and looking forward to investing in it more.

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WS: Nice. Well, let's jump in there a little bit. I'd like to even back up and say. How did you know you were ready and why was it syndication? You have been educating yourself? But you could have invested with a single-family operator or you could have invested in land, or hospitality, or — there are so many other avenues, right? I mean, the stock market even. Why was it syndication? And I assume, it was multifamily because we share the units.

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LD: Yeah. I never ended up doing a 401(k). I was 22 when I started out working. I didn't do the 401(k) because I didn't understand it. I didn't want to put my money into something that I didn't get. It didn't seem like anybody else at work really understood it. It seemed like they were just doing it because that's what you're "supposed to do." Now, I understand what the heck is going on with those. But I'm a cash flow person and I need to understand what's going on in capital preservation and the different asset classes, whether it's in real estate or in the public

equities that you just mentioned. Real estate, specifically multifamily real estate is the one that's able to provide capital preservation. It's something I understand and it has that cash flow.

Everything else, it could be a little more volatile, it can be a little more tricky, something like single-family obviously, land, it doesn't cashflow. That kind of met the criteria that I was looking for.

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WS: Tell us a little about your — you were educating yourself. So many people that are listening right now are doing the same thing you were doing quite a few years ago now. They're learning about the syndication business as they're looking to invest and grow their wealth. They're also trying to figure out, "How do I trust this general partner? How do I trust this operator?"

There are so many who have different qualities, right, that we bring to the business. I mean, I just got off the phone with numerous investors that I ask different questions, right? Many are the same, but many are different and they want to know how they can trust me. We just want to show everybody that we can be trusted, right? But how did you go through that process to say, "Okay. This is the operator that I want to put my hard-earned money with?"

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LD: Yeah. The two offerings that I invested in were both 506(b), so there was a connection that both of us had. My former roommate had a connection to one of the lead sponsors on the deal. That helped provide a bit of a sense of trust, of course. But meeting with him and talking to him, just two partners. And meeting with him and talking with him, that ended up helping a bunch to provide some more, I guess a greater level of comfort. It's like, I want to be able to feel like, "Okay. Does this person know what they're talking about? Number one. But do they seem like they're a good person, could actually have a conversation with them? If we ended up working or partnering together in some way down the road, is that somebody who I want to actually partner with? Like, "Can I talk to them, period, like have a basic conversation." That was honestly big for me.

Then there's just a lot of due diligence. I mean, I've checked out both of the sponsors, I've checked out the property management company. Like my fiancé and I, we secret shopped both of the deals. We look at the areas. Both of the deals are in San Antonio and we weren't as familiar with them because we're native Californians. We went out here, we secret shopped them. We talked to the property manager and the leasing agents who were there. I want to see what kind of cars were in the driveway, all that sort of thing. Like at the very least, would I want to live here, would I be comfortable living here, do I feel safe?

Then the last piece was doing my own underwriting on them too. I took the Pro-forma and ended up doing sensitivity analysis, and just ended up checking like, okay, so how bad do things have to get to where this deal isn't going to work anymore. Because like I said before, I'm big on capital preservation. Especially when you're working, I'm sure you're aware of this. It's like, it takes so much time and energy to end up actually collecting the money and keeping it. You get taxed on it like I don't want to lose it because of the bunch of time and energy that got put into it. I want to make sure the capital was going to be preserved.

I put that in my own underwriting. That gave me a greater level of comfort as well.

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WS: Tell me about how did you prepare for even like a property management conversation, because that seemed — or how you vet a property manager and what were your thoughts behind that and just being prepared for that meeting when you're really just learning about syndication business.

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LD: Yes. I guess it was two things. There wasn't a lot of digging I ended up doing online about the property management company. I just did my own sort of research. That ended up helping I would say, just to figure out, "Okay. Well, how long have they been in this business? Do they do well with value-add properties?" Those were the sorts of things that I was interested in.

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WS: The next I wanted to ask you though was, that you mentioned underwriting the property and doing sensitivity checks and things like that. That's kind of a more detailed thing too like there's a whole skillset around underwriting and understanding the sensitivities of a specific property or business plan. How did you educate yourself enough to feel comfortable even underwriting a property like that?

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LD: I'd looked at previous OMs before and I had an understanding of the basics of an income statement at that time, and how a DCF cashflow model works. That ended up helping, but then the other part, what I ended up doing was, I just took what they had as their proforma. I mean, to preface this, like I have a master's degree in engineering so it's like, "Okay. Well, I can work with a spreadsheet and I can understand some basics, right?"

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WS: So you got to leg up already. I mean, that's incredible.

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LD: Yeah. It was just like being comfortable with like numbers at the very basics. But then being able to work the basics of a spreadsheet, like nothing too crazy of course, but being able to work with that.

I just ended up looking at a combination of the rent dropping and the occupancy dropping. Where does the deal not work anymore? Whether it's year one, year two, or year three. I mean, if it's year five at that point, it probably doesn't matter. So I kind of look at those several years. I ended up diving in that way to do my sensitivity analysis. Like I said, if the money does what it's supposed to do and all the targets are reached, that's great. But now, I do not want to lose money. It's like capital preservation.

A lot of the reason why people invest in multifamily and in real estate generally is because there is capital preservation, it is a hard asset, right? It's a very risk-averse industry generally speaking, compared to so many others. That's what attracted me too, so I want to make sure that these properties and these investments ended up fitting that criteria for me.

[END OF INTERVIEW]

[OUTRO]

0:26:26
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