EPISODE 1400

[INTRODUCTION]

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today we packed a number of shows together to give you some Highlights. I know you're gonna enjoy the show. Thank you for being with us today!

[INTERVIEW 1]

WS: Our guest is Sunny Shakhawala. Thanks for being on the show Sunny.

Sunny Shakhawala (SS): Hey Whitney, thank you for having me.

WS: Now, I'm honored to have you on the show. Sunny's a serial entrepreneur, currently focused on managing a 45-unit commercial asset as well as building out a private money lending business. He's grown his lending business from $100,000 loans originated in 2016 to over two million dollars originated in 2018.

He invests the bulk of his profits from both businesses in the multifamily syndication with a select few trusted partners. Each deal sponsor specializes in a different market and asset class which provides diversification and location, tenant base, and deal life cycle. And I'm looking forward to giving into some of that and how you do this, Sunny. but you know, tell the listeners a little more about you, and then let's dive into your expertise.

SS: Sure. Serial entrepreneur, I graduated college and the first thing I did was to open the food cart, which was pretty fun, was serving chicken and rice like Mediterranean style on my college campus, I did that for a year before selling that. From there I joined the corporate world and did consult for a little bit for two years before saving enough money to open up my next restaurant which is a massive failure, that was three years that I wish I could get back.

So, in the third year of my restaurant operations, I did my first real estate deal which is a private money lending deal and I had made more than that deal than I had made in the previous two years combined in my restaurant so I was like, "you know what? Got to get rid of this restaurant as fast as possible and dive right into real estate." So, I've been doing that now for about a couple of years and I think the compliment to my real estate – my private money lending business is just finding goods syndicators and then backing them and supporting them and trying to get more returns that way. That's where I am today.

WS: Nice, you're finding deal sponsors and you qualify and that you want to work with and I want to say, you know, we're going to go through that process a little bit and how you have chosen different people that you want to work with. I know a lot of the listeners are in those shoes or trying to get started, whether they are passive investors looking for that first deal or syndication that they're looking to invest in or even if they're a deal sponsor or somebody pursuing to be a deal sponsor, this is going to be great information for them from somebody like your experience and your side.

Let's start with maybe some things that are important to you when you're looking to get started investing in syndication or maybe when you started and then let's get into how you interview the sponsor and then we'll go to the deal and some different things. But initially, let's help that passive investor who is looking for their first syndication.

SS: I think the absolute most important thing that a deal sponsor can show you is a track record. I don't want to say never invest in someone's first deal because there are always exceptions to the rule, but you're really looking for someone who has been in the business for a while, right? Let's say, at least six years at this point, there are new syndicators popping up every single day. They're a little barrier to entry. Time in the games so six years at least.

They have at least a hundred million dollars under management, they have at least a million square feet under management or a thousand units, right? It's one or the other. It's just to show that they can manage a large portfolio. Another thing that I like to look for is that they've taken at least five deals through the deal life cycle, what is the deal life cycle? What is the deal live cycle? That's the acquisition, that's value-added, that's either a capital event like a refinance or a supplemental loan or a disposition.

I prefer disposition because they're selling the asset and then it's complete. But if there's a refinance or a supplemental put in the investors are getting their money back and from there, or at least some of their money back and from there it's usually much higher returns and much less risk.

So, that's the number one thing that I'm looking for when I'm interviewing deal sponsors is that track record.

WS: Nice, I know there are aspiring syndicators that are listening thinking, "it's going to take me forever to get there or how do I get started, you know?" You mentioned that you don't necessarily invest in someone's first deal or you know, maybe there are other things to look at so could you speak to that for just a minute?

How would somebody – if this was always the case then how does someone get started or you know, I guess get somebody like yourself to want to invest in their first deal?

SS: This is that common problem. Even when people are looking for jobs, right? “It’s like we’re looking for someone with more experience.” And it’s like, “how do I get experience if no one’s willing to take a chance on me?” That’s a really good question. I have actually invested in someone’s first syndication?

They were a student of someone that I usually invest in so I knew that they had the education required and at the same time, their deal structure was more favorable towards the investors. A lot of times you’ll see like a 70/30 split, this syndicator is – this first-time syndicator, his deal structure was 80/20 to the investors which are obviously favorable, a lot of the times you’ll see like a six to eight percent preferred return.

This first-time syndicator provided a little bit more than that. I guess when you’re – when it’s your first deal, you have to give up a little bit more. I’m now investing in people that are doing 35/65, right? Because they have that track record because they know they’re good and because they know, investors are still going to come to them, right? So, as you grow your business and as you have more time in the game, you can start recapturing that value. But if it’s your first time, I think you’re just going to have to – I mean, there are probably multiple ways to do it, but I think giving more value to the investor is one way.

WS: Nice. That’s great advice. Great advice. I think most of us have been in the shoes and you know, where we’ve tried to give a lot more to the investor to get started and at least initially and getting that track record and the show more of alignment of interest as well. To some extent but give a lot more back. You mentioned at least one million under management, six years in the business, thousand units, and million square feet and I think you had mentioned in them.

I guess, you know, I’d like to go through how you interview a sponsor or what that looks like, maybe some – any other questions you like to ask, the actual sponsor themselves, you know, let’s dig into those things a little bit?

SS: Yeah, it’s multiple touch points, right? It’s not one phone call where I take up an hour or two of their time because honestly, that’s – I’m looking for two to three hours of their time across probably a month timespan because I just have so many questions. And I think people are afraid to take up too much time of someone like a syndicator, right?

Like a busy person like a syndicator, but at the same time, we are parting with hard-earned money to invest in this person. So, it takes time to build that relationship. I would do something – I would go into this interview process, sort of like expecting maybe there to four half-hour calls over the span of 30 to 45 days where I could kind of drill them on different things, and the first conversation would look like track record.

The second conversation would look like what's your team, right? I definitely do not want to be backing a one-man show. I want someone who has asset managers. I want someone who has like full-time underwriters, not full-time as in he's paying them like a W2, but full-time as in these people are underwriting a hundred deals a month and they are just passing forward what they like, right?

And those deals are boiling down to one deal that is forwarded to that syndicator. Someone that has an assistant at the very least, right? Because time is the most important thing and having an assistant is just – you need that. A syndicator needs that type of person. Analysts, right? People that are doing market research and acquisitions managers like these are just like the basic types of positions an established syndicator would have. In the second conversation, we would look like, who is on your team?

The third conversation I have would look like, "what does your communication look like with your investors, right? Is it a monthly email? What are you sending on a quarterly basis, are we going to see financials, are you holding events, do you come out to – do you make like a national tour, right?" One of my syndicators, he's based in Ohio but he comes to New York once a year, he goes to California once a year and he's going to Texas once a year and those are where most of his investors are and he's inviting everybody out so we can get a facetime with them with our peers.

Because what people may not understand is what you might not understand before you invest your money is: it's kind of like a marriage, right? You're going to be in this type of situation with this person for the next five to seven years. So you want to be sure that you are getting the communication that you require and if they're not providing it then just move on to the next person.

I actually invested in this syndicator probably a year or two ago now. I gave him my investment and about six months passed and I didn't even see an email. I was like, "this is just not for me. I don't like this." I emailed him and I was like, "hey, I'm not a fan of your communication style, I'm sure you're going to do great. But, can I just get my investment back?"

He was like, "you know what? Sure, no problem," and he wired me my money back the next day. That was probably yeah, probably like surprising, that was a fund so it wasn't like my money went towards one specific asset, it was a little surprising that he did that and he didn't try to keep me or anything, but at the same time, I just wasn't comfortable with this communication style and I couldn't force him to communicate with me only because that doesn't scale, right?

Then the fourth conversation, I probably have with any syndicator would be more deal specific. I'd ask for examples of past deals, right? What are the returns look like, if they're willing to share with me, what does a sample K1 look like? Like the annual return for a specific investor, right?

Obviously, blank out the name and the social security numbers and all that stuff and provide that to me. And I asked for more proof that they were doing what they said they were doing because it's very easy nowadays to go online and download a picture of some multifamily asset and put it in a nice spreadsheet and put it on your website and talk about it on your podcast and look like you're the man.

It's very easy to do that. What's not easy to do is fake a closing sheet, right? Fake a warranty deed, ask for those types of documents.

[INTERVIEW 2]

WS: Our guest is Ramana Korada. Thanks for being on the show, Ramana.

Ramana Korada (RK): Thank you, Whitney. Thank you for the great show. I'm glad to be part of this show.

WS: Yeah. We're grateful to have you on, especially with your experience. I know you'll be able to add tons of value to me and the listeners. So I appreciate your time. I'm grateful for that, Ramana.

But a little about Ramana. He's a co-founder and managing partner of Raven Multifamily, which acquires B and C-class multifamily assets in landlord-friendly and growth markets. His company has syndicated 2,700 units in three different markets in the last three and a half years. He's passionate about adding value to investors, as well as tenants.

So, Ramana, thank you again for being on the show. Tell the listeners a little more about maybe your background and how you got into this syndication business.

RK: Absolutely. Thank you for the opportunity again here. So, folks, my name is Ramana Korada. I live in Frisco, Texas, which is part of Metro DFW. I'm an immigrant to this country. I came here in 2001 for my master's. Like everybody else, I finished my master's and started looking for a job, and found a job. I was roaming across the country with my job, but I always have this passion to do something else other than my job. So I was exploring different opportunities in multiple areas, not knowing anything, and not formally educated in any other than my day job. I never stopped my thirst for exploring.

So I started partnering with a few of my friends and started investing in retail strip centers. So I found two of them, I partnered, and I wanted to replicate them in my hometown of me, which is Dallas. So I was able to get many people interested in the business model. But by the time, "Guys, it's ready to send your funds," nobody was doing that. So that gave me a pause and thinking retrospectively, what I realized is these folks do not have any formal education. I mean, they are believing in me, but they are not able to make a decision if that's a good investment for them or not.

So that pushed me into finding the right mentor where my job is not to educate people, but rather I wanted to make the investment successful. So I found – I mean, until then, my focus was on retail strip centers. But after I found this mentor in Dallas, I felt like multifamily is the way to go, because, end of the day, everybody has to live under a roof. The class of the property that my focus area is, B and C, where C is the lowest in the class, of course, that's where the value-add comes into the picture. But by targeting the C-class properties, I was able to pull most of the sophisticated and accredited investors into these states.

So this is where I learned a multifamily knowledge base and networked with so many folks with a similar mindset. I started investing passively and quickly learned how to syndicate. I found my partner, Venkat Avasarala, in the same mentoring group. We started working together, and we started with a 100-unit property in Oklahoma City and moved on to a 120-unit in Glendale, Arizona. That gave us enough credibility in the market, and we picked up the 300-unit property in the DFW market. Since then, we've been purchasing in DFW. So we finished our 11 syndications with 2,700 units.

WS: 11th syndication?

RK: That is correct.

WS: Awesome.

RK: Thank you. So we exited from 3 deals out of these 11. So we are actively managing the eight properties. We don't self-manage. We are working with a third-party property manager. Professionally manage the companies in the DFW market and looking forward to getting to our 10,000-unit mark in the next few years.

As part of this process, I worked in IT for 15 years. After having few properties, I mean, it's kind of overwhelming with investor relations, with property management, with the – All the nine yards with the property management. So with that, myself and my partner, I quit our 15-year carrier IT jobs, and we are doing this full-time.

WS: I appreciate you elaborating on that. I know lots of people that are listening are looking to do the same thing, and you have accomplished a lot. I mean, 11 syndications. That was great experience, and I know you all have learned a lot. So why don't we talk about a recent acquisition, and let's kind of dive into that deal a little bit?

RK: Absolutely. So my apologies for not being able to make up my scheduled time with you, because this property type is a whole lot more than anybody would think. So in the first 10 deals, myself and my partner, I never struggled to raise money. Even in the last three deals, we were able to raise like $9 million in 24 to 48 hours. I mean, not everybody deposited that money into LLC's account, but we were able to get full commitment within no time. But something changed in the market.

So if I think back, what I could realize is, definitely the recession back is more than it was a few months back, and multifamily is still the hottest market. So the price per pound is definitely killing, and there are a lot more syndicators in the market right now than a couple of years ago, so lot of availability of these opportunities. Of course, investors have to make their complete due diligence before committing to their funds. They have to work with the syndicator. They have to work the submarket. They have to work the market. They have to look at the underwriting, and how well these syndicators are doing. All these factors before investing in anybody's deal.

Even though our underwriting is very conservative and very investor-friendly, still we were not able to pick up the $8.2 million raise not easily. So it took a good three weeks this time. Definitely, price per pound is one of the key factors that we have to keep in mind. So before purchasing or getting into a contract, that would be my criteria for sure.

This particular deal is a 280-unit Arlington property. It is 1970s-built. The seller whom I know, we know before, manages around 5,000 units across Texas and Colorado markets, a very sophisticated seller. We spent around four million dollars in that 280-unit property. That took care of pretty much entire exterior renovations, and also they upgraded 48% of the interiors as well. They showed us a good path to increase the rents. So it was a no-brainer to win this deal.

I mean, basically, this was an off-market property that one of the prominent brokers got to us from the Dallas market, and the same shop provided a good 80% LTV loan on the property. That helped us real big time. Finding the right lending partner is key to success in this business as well. At the end of the day, the more pursuits that we get from the loan will help lesser equity raise, which will produce much higher, much better results for investments.

WS: Okay. I'm going to stop you for a minute, because there are a lot of things there we can talk about or that I want to ask you about. I want to say congratulations though to you all to be able to raise $9 million in just a couple of weeks or before even. I know you said this time you struggled, but you still got it done in three weeks. I mean, that's still – Most people listening would still be jumping up and down to be able to raise that kind of capital even in six weeks. You all are obviously doing something right.

But tell me, I know you elaborated a little bit on just how the markets change and maybe why it was a little more difficult to raise the capital because these investors have so many more opportunities to look at now. But what was it that really helped close that gap for you? After a couple of weeks, you all noticed that "Okay. It's going to be – Well, it's a little more difficult now to raise the capital than we expected." What was it that pushed you to reach your capital raise goal at that time?

RK: So basically, we didn't reach out to all the people in the first place. So obviously, we reached out and we made a few phone calls with the past investors. So they came forward and invested with us. Also, to keep the underwriting very attractive and conservative for the investors, we didn't include a lot of other income opportunities in the underwriting in the first place.

Some of the investors were asking, "Hey! How come you didn't add any –" It could be [inaudible] income. It could be tax savings that the City of Arlington is [inaudible]. But we can implement car parking, and reserved parking. We can get cable and Internet contact to the property. I didn't include all these in the initial underwriting. So when I added all that stuff. It definitely showed much better results for the investors or returns for the investor.

So that helped fill that gap very quickly. I wanted to keep it as much conservative as possible. Still, I don't want to false promise. End of the day, once investors like your business model – the things that we do, we have very clear communication with our investors. We don't false promises. If something is not right in the property, that's what we communicate. We don't oversell to any investors, whether – "Hey, if you are interested, please invest. If not, let's move on. But you know, we will share our next opportunity with you so you can join." No selling, clear communication, clear expectations.

In our webinars, we make sure that we communicate, "Okay. This is how the communication is going to be," and we try to be on the same schedule. Also, we had pretty good success with the sales or the exiting of three properties. So that helped us secure our 2,700 portfolios in three and a half years.

WS: You also said numerous things there that we should probably elaborate on a little bit. But for the sake of time, I'd like to know a little more about this deal. You elaborated 280 units in Arlington, 1970s-built, and who the seller was a little bit. They'd already upgraded 48% of the units, and that it was an off-market deal that a broker brought to you. Tell me, right now, I know everyone is struggling with finding "the deal," the next deal. We're seeing lots of properties, but they seem to be so overpriced. What was it about you all or the relationship or the connection that allowed you access to this off-market deal?

RK: So basically, end of the day, brokers have to represent sellers. You can have as much relation you can with the brokers, but you have to give a warm and fuzzy feeling that you are the closer, one way or another. We go into these contracts with the mindset of 60 days to close. Luckily, or fortunately, the way how we perform for me and my partner, we always – as in most of the deals closed at least a few days before the 60-day mark. So we have that reputation in the market that we are the closers and we can close early too.

On this particular deal, we closed this deal how many days? A week before. Even though we struggled to raise money, we were able to close a week before. So why I'm saying that is obviously you have to impress the broker with your due diligence before setting up the tour. You make sure you read the [inaudible 00:12:26], you understand the market, you understand the submarket, you understand the property. If needed, go and visit the property multiple times. Feel comfortable so that if you are well-prepared before setting up the tour, the broker will get impressed upon you, and he will see the odds in you that you want to win the deal.

Now, you have to give the comfort that you can raise the money if you are a syndicator or if you have your own funds that are well and good. So as soon as the broker feels comfortable that you are closer and you have a resume that shows that you are closer, then definitely brokers will come after you. Of course, as I said, brokers represent the seller. There are a lot of syndicators and institutional partners looking to park their money in this multifamily asset class. So you have to compete with more folks than you would think.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being a loyal listener of The Real Estate Syndication Show. Please subscribe and like the show. Share 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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