EPISODE 1414

[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 this show. Thank you for being with us today!

[INTERVIEW 1]

WS: Our guest is Walker Meadows. Thanks for being on the show, Walker.

Walker Meadows (WM): Hey, Whitney. Glad to be here. Thanks for having me on.

WS: Walker, let's jump into underwriting a mobile home park, and maybe you can use either a previous deal or something and you can kind of highlight we go through this process and maybe just your process of how you do this to ensure that this is a good investment or not and maybe we'll talk about how you structured a little bit. Maybe what's different between mobile home parks, and are there asset classes that's specific to the numbers you're looking at? But get us started. Either way, previous deal or a fake deal, or either one if you don't have one you can share.

WM: Yeah. It might be more helpful if I can just run through how – Like if we come across a deal from a broker or a wholesaler or otherwise, kind of soup to nuts, how we take it to the process.

WS: Please.

WM: And that might be helpful. You can kind of think of it as a filter. We kind of have multiple sniff tests that deals go through before they ever hit the underwriting model. Obviously, there's the preliminary filter where you're looking at a deal. It just doesn't meet our criteria. But kind of the three things that we're looking for right out of the gate or a park needs to have over a hundred pads. It needs to be city utilities. No private wells or septic tanks or anything like that, and it needs to be in a population with ideally at least 100,000 people and steady population increases. Those are kind of our what I think of as our first layer sniff test. That will filter out 90% of the deals, which originally folks think is bad, but we found the more specific we can get with our criteria, the better actually. The quicker you can get to a no a deal is just as effective. It's just as important as getting to yes, because you only have so many hours in a day and you need to be able to filter down to the high priority deals. I'd say that's the first level filter.

Next level filter is we take it through a full-blown sniff test, which is where we are looking into demographics of the market. We're looking at median income, median home value in the area down to the specific ZIP Code and block level. We're looking at the economic kind of outlook for the area, job projections, kind of all the standard demographic criteria that you would expect probably in the asset class. Kind of the market drivers. Really, the main one behind it all is like, are there jobs there and will there be jobs there in the feature? Will you have people to sell your product to.

Then, if it gets all the way through both of those, then that weeds out probably 99% of the deals. So, we're really only hyper-focused on the 1% of deals that we'll check our boxes. At that point, basically when I came onboard with Brandon, I rebuild our entire financial underwriting model, and that's what we currently use to underwrite deals. So, at that point –

WS: Is that an Excel sheet?

WM: Yeah.

WS: I mean, something you've mastered or is that – Okay. It is.

WM: Exactly. Yes, an Excel spreadsheet. It's pretty complex behind the scenes, but we try to make it very user-friendly on the frontend so that multiple team members can use it even if they're not getting a ton of reps on underwriting a deal. But, I mean, if gets to that point, we are getting full-blown financials from the broker or from the seller to the extent that we can. We're getting rent-roll. We are having multiple phone calls with the seller and with the broker. Typically, for a deal we take all the way to the underwriting process, I mean, it can take 10 to 15 hours soup to nuts before we get an offer on the door. That's why it's so critical that we only let the high priority deals through to that point, because –

WS: We can only get through so many.

WM: Exactly, yeah. I mean, if you just look at my hours in the week, even if I worked 80 or 90 hours a week, we could still only get some the offers out. We got to be hyper-selective on the frontend, which was a learning curve for me. I felt like we were leaving a lot of meat on the bone.

WS: I liked how you said, and correct me if I'm wrong. You said the quicker you get to a no is as effective as getting to a yes. Is that right?

WM: Exactly, yup. Because every second that you spend mulling over some deal that ain't going to work for you anyway is a second you could've spent evaluating a deal that is going to work for you.

WS: That's awesome. All right, now you found that one deal that meets all that criteria, that 1%, right? Then now it's time to dig deeper. It has over hundred pads, it has city utilities, population of at least 100,000. You've check the market out. You check the economic outlook. You know there're good jobs there, and jobs are going to be there in the future. Maybe you could mention one thing about what tells you that jobs are going to be there in the future. Is that a specific kind of job? What would tell you that?

WM: Yeah. I mean, we typically like to see – Basically, when you look at the job outlook, you want to see a diversified job outlook, meaning that the area isn't super dependent on one singular Air Force base or one singular manufacturing plant to limit your risk there. Really, I mean, you kind of have just past job growth information and kind of ancillary information you can get from local economic development groups to project down to future. They say past data isn't always the best indicator of future performance with it. To some extent, that's the best we have in the space. So, a lot of time, you're using past population trend data, past job growth data and kind of projects you might can find online.

WS: Okay. Now you found this deal. What documents do you already have to have gotten this far?

WM: Yeah, that's a kind of an interesting point to dive in on, because especially mobile home park world, a lot of parks are still owned by what we call it mom & pop type of sellers. They might be 70 years old looking to retire. They've own the park for 50 years, and they might keep their books on a notepad, a paper, and that's what you get.

So that's kind of one extreme. Another extreme is is a very professionally marketed deal through a large broker where you have nice professional looking OM and you have a T12 financial statement along with the current rent-roll. A lot of times, even additional information on top of that. Maybe prior years, financials as well, and it really just depends on where the deal is sourced. Sometime we don't have any that information. We have to make some broad level assumptions. Ideally, we have at least a T12 and a rent-roll to reference.

[INTERVIEW 2]

WS: Our guest is Mason Moreland, thanks for being on the show Mason.

Mason Moreland (MM): Hey, thanks for having me Whitney. Pleasure to be here.

WS: Mason is a finance partner at Texas Vine Country. Operator of Canted County Vineyards and Lamesa Texas. He started out investing in residential real estate and used lessons learned there to tenaciously underwrite every business he came across as a deal using this superpower to find untapped niches and people to make an impossible project a reality. It's interesting how you say untapped niches and people. To hopefully get into that.

Texas Vine Country has expanded County Vineyard's footprint by 483% in 2020, making it one of the largest vineyards in Texas. And Texas is big.

MM: Texas is big, it's awfully big.

WS: The most advanced custom wine making facility in the state. FermForge in the summer of 2021. Mason, thank you for your time, I welcome you on the show, grateful to have you. Why don't you give us a little more about taxes vine country and what this is and vineyards, I mean we haven't had too many people talk about vineyards before and why we should even know about that or that's even a thing to invest in. And maybe you know, what FermForge is a little bit. What you all are up to.

MM: Sure, yeah, absolutely. I think the only one I remember offhand is maybe Brian Silvieira down there in central valley. He does some really cool stuff too but yeah, Texas Vine Country, we're basically a partnership of folks that have all our own individual superpowers, right? The partnership is the original syndication, you go out, find people that have the talent that you don't have. Or the resources that you don't have and you come together to make what you can't do individually happen.

It's sort of a combination of a lot of, maybe not fortuitous — but events that were meant to happen the last three or four years. I remember the very start of it was, I was sitting in my bed with my wife just hanging out one day. This was either right before or right after I had my first kid. We were watching some movies and we started watching some wine movies. I thought you know, that is really cool, those people just hang out on their estate in France. "That looks like the life, that's what I should do," you know?

Texas has tons of land, it's fairly cheap and it went from there. I had a buddy that's been working with — they're both partners now who is vineyard manager and I called them and I said, "Hey, I'm really interested in this vineyard thing. Can you teach me some more about it, give me some numbers because you know, I do real estate, we've got single family homes, multi-family properties, this is something that I like to analyze?" So, he got me a bunch of numbers and kind of explained how it worked and I'm somewhat familiar with agriculture — I'm a wildlife biologist by trade. But just like I do with everything I do, I built a model and started trying to figure out, "How does this work?"

And I got to the end of that first model and I dialled up my buddy, and I said, "You are crazy, no one would do this, this is insane, you're either going to lose everything or you're going to make a lot of money but it's not a whole lot of margin for error there." And we started looking into the 'why,'why is it crazy. Where are the holes in this model that make it dangerous, what are the risks, how do we plug those risks? We need to find that.

We got to where we are now because we found those people, we found the talent and we found the resources.

WS: Nice, you know, when you say making a model, what does that mean?

MM: Really, just underwriting, right? What everybody calls it when you're going to finance. But, you look at each step in the process, if you're going to do something that maybe your audience is more familiar with, if you have a multifamily property that's either off market or on the MLS and they have some sort of proforma telling you what the numbers are. What the income is, it's the same exact thing. You build the life cycle of that business. I do it in Excel or Google Sheets and you find where those risks are by playing with your variables.

That's what I've done for — forever. You know, I love getting in there, starting from scratch and building an organism, you know? In excel and figuring out where the holes are.

WS: That's so interesting, I'm thankful that there are people like you that enjoy that, you know?

MM: There's not a lot, you know? It must be genetic. My dad, he's a CPA, I don't know if he enjoys spreadsheets. But man, is he good at them. That kind of rubbed off on me, maybe I got the enjoyment of it.

WS: Yeah, I've heard so many times, even this business, you know, to really learn underwriting. Like build your own model so you can see where things are coming from or 'how do we get this calculation.' You are going to know then, that it took from this over here, and it took from that — or how that was calculated. But that was so tedious for us, you know?

We were trying to do that and then it makes me nervous, well, especially in Excel, where I've messed up this one thing while, do I know it still works? And so just not my specialty. Thankfully we do have somebody on our team that's extremely talented in that area. I guess, walk us through that just a little bit. I love how you said, you know, look at each step in the process and then you just build the lifecycle of that project. Makes it sound so easy, right?

MM: Sounds way easier, right?

WS: Right. I know that even in 20 minutes, we can't unfold all of this but let's dive into that a little bit and how you do that and what you're looking at, you're trying to build that sheet or build that model to figure this out. Because it's not like you're just doing multi-family time and time again. You're doing this for different businesses, different projects as well, right?

MM: Yeah, absolutely. The first thing I start out with is I literally pull up a blank spreadsheet and I just do a brainstorm, you know? Even a notepad. You got to think about the main things, right? You got to think about where's your income coming from? What's the timing of the income? How does the income change year over year, month over month? What's the variability in it? What are the risks there? Financing is huge, right?

What structure are you going to use, especially with really big in agricultural pursuits too, because you can tie financing to cash. You can tie financing to land and tie financing to receivables. But the main parts are to take that — where is the income coming from? How are you servicing debt if you have it or any operating costs? I like to put them out on a timeline first and the duel out from there.

WS: Okay. Income, listed out numerous things you have to take into account there and obviously the debt and financing. What else are you looking at, you know, if you're thinking of vineyard versus multi-family or some other type of completely different project — but there's obviously lots of different variables there for each one of those. How do you even find those things, those variables or those risks or those things that you need to account for when it's maybe a project you're not as familiar with?

If we're doing multifamily every day, well, then, we understand most of the risks the majority of the time. I wouldn't ever say all the time but a majority of the time, we know we need to account for. But you know, if you were to give me a vineyard right now and say, you know, "Underwrite this," I'd be calling you, for sure. Where do you even go to figure out the risks that you need to account for?

MM: That's a great question because that was the first brick wall that we hit, right? I need to figure out where your risks are, you know, obviously you can take from the other experience and other industries and think of those risks but really, they don't necessarily translate very well like you're saying.

The first step is to see if somebody else has built a model out there, right? If you can find somebody else that's analyzed a similar deal and is willing to share that information with you, that is an incredible resource. Because first off, you can see, "Okay, what do they see as risks in this business." A, right? B, build your own model based off of whatever you can find and whatever information you can bring.

Once you build your own model, you'll start to see by just playing with different variables, going up and down, you're going to see what moves them the most, on the margins particularly, the timing of your revenue and things like that. And then three, I think the most important is you got to go find people with that superpower you're missing. And for us, that was a couple of different people but particularly Rusty and Dustin on our team.

They are both entrepreneurs and they are deeply involved in the grape business in Texas so they know offhand, "What equipment do I need," you know? The cost, they can have somebody on the cellphone, right then, and figure out what's the cost for t-post if I order 40 truck loads of t-post. That kind of thing. You can't just get if you're not in the industry, right? You got to go find those people with that superpower, that talent, those resources.

WS: Yeah, you reverted a syndicating talent, I love that. Why don't you elaborate on that a little more while we're on that and I'd love to come back to just the model stuff. Syndicating talent, was this something that y'all's team finally learned one day, I said, we got to find somebody that knows how to do this, you just hit a rock wall or was it just a matter of growing that you knew you had to happen.

MM: It definitely is a slow thing, right? You do it kind of step the first time until you have some retrospective where you can see, like, "Where did we mess up the first." But when you do it the first time, usually for a brand new business, it's usually a step-by-step. For me, it was more like, "Hey, I'm interested in this business, let me find more information on numbers," particularly, like, income seasonality, you know. What are the mechanics of it? Just learn a little bit more about it.

If you want to look into a coin operated laundry, you go find somebody that — does fluctuate by season, what are the variables I need to look at?

Once you find that first question, I had no idea how to proceed, that's when you pick up the phone. You gotta start calling people, you gotta start talking to people. One of my favorite things is just trying to find somebody new, that's not doing what you're doing but maybe tangentially related. Just having a conversation because you never know where you're going to bring value or they're going to bring value to you.

Like you said, the syndicating talent is huge and that's how I found it for this project is, it started with my friend and I knew it was in the industry, met a new connection through him, just got as much information, and gave as much value as I could give to that connection and that's when we found you know, the Texas wine industry in particular. There's a big gap right now where everybody in it, not everybody, but a lot of folks — it's very passion-driven, like how I started, you know? "Man, that seems really cool, you want to go do this?" And they just do it.

That's the way a lot of great businesses are started. If you want to succeed at something like we're doing where it's at scale, it's mechanized, it's just huge. You really got to bring the missing parts all together, you can't have good business sense and no talent to grow grapes, you can't have poor business sense and amazing talent and a vineyard, you got to bring all the things together, I think that's what we've done in our business.

WS: I think a lot of our businesses could relate to that and what you just said there is like, the person who is the expert at growing the grapes, they're not necessarily the person that understands all the numbers or —

MM: They may know, like I was saying, how much a truck load of t-post cost but how do you amortize that? How are you fund it in the most efficient way?

WS: Yeah or just operate a business. Back end of a business, which is so important, you know, I think a lot of people underestimate just the time it takes. And the importance of that and just what it takes to make that happen as well and again, that may not be the same person, that understands how to make that crop produce its best.

Anything else about syndicating talent, I wanted to go back to some model stuff but you know, I just want to give you the opportunity though because it's so important and I think it's so interesting that you highlighted that as far as how you all have syndicated talent.

MM: One of the things you always ask is what's something that you've done to improve your business that somebody else can do and implement in their business? That, for me, right now is really looking at myself, in my team, and getting everybody together on our team to look at themselves in the last two or three years and say, "What holes do we have? What holes do we have going forward? Where are we weakest?" And really just aggressively going out and talking to new people so that we can try to address those weaknesses.

Even if you think it's okay, okay is not going to cut it if you want to survive and really dominate in an industry or a niche. So that's what we're doing right now. That goes back to the syndicating talent, you have to constantly be reassessing yourself and your team and getting everybody on board to look at themselves to find those weaknesses.

[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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