EPISODE 1462

[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 Dylan Marma. Thanks for being on the show, Dylan.

Dylan Marma (DM): Thanks for having me, Whitney. I'm excited to be here.

WS: I'm excited to have Dylan on the show. Dylan began his real estate investing career in 2015. He quickly rose to a leadership role in a residential and commercial real estate investment company in San Diego. In early 2018, Dylan joined the team at Rand Partners, that's Jake and Gino, to expand into additional markets throughout the Southeast as well as to build out the systems to open up the doors for outside investors to partner through syndication. At the age of 25 years old, he owns and operates over 500 units. It's very impressive, Dylan.

I love having somebody in their mid-twenties or younger on the show that's been as successful as you. It shows that all these limiting beliefs are not true and that it can be done and you're making it happen. I know you're playing a big role with Jake and Gino. I know they're thrilled to have you on board and your businesses. We were talking about you're growing and your team is growing. It's amazing what's happening there. They are great guys. Their integrity level and business quality are fabulous and it's showing. Dylan, tell the audience a little more about who you are in case they haven't heard of you and what your focus is and let's dive in.

DM: I'm sure we can touch a little bit on my story, but we'll start with where I am. I'm playing two different roles within Rand Partners. They still consider us as somewhat of a startup phase. As a business, we all have been involved in the last 500 units or so. As a business, we're at roughly about 1,500 units. We hired our first employee. It's an exciting time period for us. The two main hats I wear are number one is investor relations. It's working with the investors on the front end. I've been a lot on the front end with phone calls. I'm having a lot of involvement with some of the webinars, the marketing materials, and the asset management stuff to keep the investors engaged.

Number two is acquisitions. A lot of the front-end underwriting, a lot of driving out to the markets, touring the markets and submarkets, looking at the deals themselves. There are four of us as a business that had been running and operating over the years together. We all have different backgrounds and different mindsets. It's a great collaboration and the effort that we have as a team. I love the environment that we work in. Our latest hire is coming on board to help us as an associate. It's an all-encompassing thing because we all have to wear a lot of hats starting off. That's where we are in business. Overall, it's been a great journey so far.

WS: I've learned a little bit about Rand. I've seen your growth and keeping up with you a little bit. I get your newsletters as well. It's good stuff. I love seeing good people doing great things and the growth you had. Let's dive into a little bit about what Rand is doing with the "market" and the way it is. We hear that all the time. What are you looking for in deals? Maybe how that's changed or how you're looking forward to changing going forward.

DM: It's an exciting time in the market. Everything with interest rates getting cut further and further. We see a lot of shifts in asset prices in the way that buyers and sellers are operating. Everyone realizes that the end of this bull run is only so far ahead of us. A lot of us are looking at number one, how to preserve capital and how to protect our downside. Number two, how to still create an attractive enough opportunity for the investor base and for ourselves. For us, our bread and butter have been from day one workforce housing.

A lot of what we look at when we say workforce housing is usually that sweet spot of the $40,000 to say $60,000 median income range for the most part. We're typically catering towards residents that work in retail. Maybe they work in restaurants, retail employers or they work in blue-collar. They might work in an industrial. They were working force housing that is going to provide a safe, clean, and affordable place to live. I say affordable, not in the sense investors are used to, but maybe in the sense of a reasonably priced place to live, that's managed well and provides good quality service.

We do all of our management in-house. Jake leads up Rand Property Management. Every single asset is self-managed. We emphasize that at a high level. We're providing good customer service and making sure that we're on top of it and being hands-on with operating each property effectively. Typically, on the purchase side, we're looking at assets. You never want to put yourself in a box completely. Nine out of ten assets that we look at are built before the 2000s. They are usually going at heavy discount replacement costs. You're also going into an asset that typically is going to be cash-flowing from day one. It's usually stabilized from an occupancy standpoint.

We're able to go in with agency debt. We prefer long-term fixed-rate financing because that does protect your downside from one of the risks, which is your interest risks. Especially right now, it can be attractive financing rates. We're definitely trying to take advantage of that. We're always looking for operational inefficiencies. We're looking for rents that are below market like everyone else, typically in value-add space settings. We're also looking for other income streams. We've done a good job at being able to produce that many properties. As much as 15% or more in some cases of additional income through maximizing different fee structures and things like that.

[INTERVIEW 2]

WS: Our guest is James Wise. Thanks for being on the show, James.

James Wise (JW): Hey, Whitney. Thanks for having me on, brother.

WS: You all are expert in management and taking care of tenants that are also slightly unique or extra unique?

JW: You don't got to say slightly unique, Whitney. I mean, those people are damn savages. Let's just call it like we see it, man. It's tough. It's a tough industry.

WS: So, I'd love to hear some of those stories, some of the worst evictions, and things like that. I think you had a very popular show recently about that. Tell us some of those stories and how you all handled them?

JW: Yeah, man. Look. Guys, here's the deal. A lot of people like to dance around the issue of how difficult it is to be a property manager to actually invest in real estate. Because various folks, brokers, straight. I'm a broker as well, brokers want to sell properties. Brokers want broker deals, syndicators. They want to sell their sponsorships. So, don't get me wrong. I do too.

I've sold $150 million with the rental real estate in the last few years here, and I run a large portfolio top to bottom, like I already mentioned in the show. It's one of the reasons I come on shows like this. I want to sell more real estate. I want to do that stuff. But I don't like to dance around the topics. We don't have to call some of these people unique, man. Some of these people are freaking savages. That's where the idea for my show, one of my shows on Holton Wise TV. This is probably the most popular show. It's called the Tenants From Hell Show.

What that is, man, we give you guys real-life situations that have happened to us or have happened to other investors. So, if anyone out there is listening to us right now and you're interested in being on that show, just shoot me an email. Google us, and I'm sure you'll be able to find us. Let us know your story. We might have you on the show.

But like some of the worst of the worst, Whitney. You touched on the evictions. When we evict people – I evict probably a hundred people a year. I run a large portfolio. That's part of the business, guys. If you're investing in real estate, it doesn't matter if you're investing with Grant Cardone, [inaudible], Holton-Wise. You're buying stuff off of RoofStock, whatever. Nobody in the world has figured out how to run around a real estate without doing evictions. That's part of the game, y'all.

So, what I like to do, we like to film our evictions. We do about a hundred evictions a year. We film them, and the best ones we got, we put that on the show. We do that live. One episode, we had a hoarder. A lot of people, they don't understand what exactly it's like to go through an eviction or what is actually going to happen. Like a small little apartment, Whitney. It was like, I don't know, 600 square feet and this thing rented for like probably 600 bucks a month.

I can't remember off the top of my head, but we had to get an entire crew in there. I probably had on-site in that video. You see all the guys in the video, working, emptying out this apartment. I probably had three bailiffs and like a total of nine guys. They're all day emptying out this little 600 square foot apartment. You think you've seen some rough stuff, guys. This ended up being a total bill to get that apartment completely emptied out, renovated, and ready to run again for 600 bucks a month. The total cost ended up being like 15 or 16,000 dollars.

And that's the part of the business that nobody really ever wants to talk about. But these things happen. When we're doing our analytics on our rental properties, we need to put this type of stuff in our proformas because this is stuff that's going to happen. That's what the Tenants From Hell Show is all about, man. That's what we like to do. We want to show people that, so nobody goes into investing with a blindfold or blinders on.

WS: How are you all keeping from renting to more people like that? I mean, I know it's going to happen. That many units, it's going to happen. Like you said, a hundred evictions year. It's part of the business. But how do you start to minimize that?

JW: There's a few ways. The standard boilerplate answer to that question that you'll see most people give is, "Oh, you go to do proper tenant screening," which is absolutely true. We could talk about tenant screening, but I don't want to talk about that first. What I first want to talk about is the very first thing that screens your tenants, and that is the neighborhood. That is the class of asset. Let's not pretend that every little neighborhood in the United States of America is Mayberry. It's just not how it works. You have what I like to call A class neighborhoods, which is primarily your owner-occupied neighborhoods, where your wealthy folks in that metro, major metro live.

Not a lot of rental property investors are gravitated towards that, because the cash flow numbers typically don't pencil out. It's just where the owner occupants live. But then you get into like B class neighborhoods, which is your suburbs where you start to see a little bit of rentals tapered in there. So, it's kind of like 70, 80% owner-occupied, but then like 20% rental properties. And then you get into your C class stuff, which is like a nice mix. It's probably half-and-half rentals versus owner-occupied. And then you get lower in the D and F class where you start to see all rentals and you start to get into rougher, tougher areas, ghettos, hoods, things of that nature.

So, depending on the type of investment you buy, that's going to be the biggest determining factor in the amount of bad tenants you're going to run into. No matter how nice your property is, if it's smack dab in the middle of the hood, you're not going to get high-quality folks to live there. High-quality folks just – They're going to choose to go to areas with nicer schools. The rest of the neighborhood keeps it up nicer. The property values are higher. Things of that nature.

So, when we're running our proformas and things of that nature, we need to factor this type of stuff in. And you really got to match the property you're going to buy with your risk tolerance. The flip side of that coin is in a B class neighborhood, what we do, we do a lot of like small multifamily. That's what we do here in Cleveland, and people are blown away by the pricing. In a C class neighborhood, a very typical sale of ours would be we will sell an investor a duplex that's going to rent for probably $750 a unit. So, it's going to be $1,500 a month in a C class neighborhood, and that is only going to cost that investor probably $85,000.

Now, a lot of people are probably like, "Whoa. Whoa." They're probably like grabbing calculators out right now, running the numbers like, "Oh, those are really good numbers." Now, same thing. You can get 750 bucks a month in rent out of a duplex in Cleveland in like a D class neighborhood for even less. You can get that for like $40,000. But now, you're in the ghetto. That's going to come with varying levels of difficulty.

So, with the C class property, maybe your average tenancy is two, two and a half years. Whereas you go to the D class, maybe it's less than a year. So, you got to factor in those costs. Or if you want super stable tenants, college-degreed, dual-income, maybe try to get that $1,500 of rent in the B class. But instead of paying 40,000 like in the D or 85 in the C, you're willing to pay like 150,000 now just to maintain that lower-risk tolerance.

So that right there, that's going to be the first thing. That's how you screen your tenants. No property manager in the world, no matter how good they are – I would like to say, Whitney, I'm pretty damn good at being a property manager. This ain't my first rodeo. But no matter how good I am or how good Holton-Wise is, we're not going to be able to put B tenants that are attracted to B class neighborhoods. We aren't going to be able to put them in your D class properties, guys. It's just not possible. Those people have earned the right to live in nicer neighborhoods. Why would they go back? There ain't nothing I can do. You know what I'm saying?

WS: I really appreciate you talking about the neighborhood and how that's part of the screening process. Long before you ever talked to the tenant, I mean, you've limited the class of tenant that you can get in there. Most people are going to jump right to the screening process. But, yeah, you're exactly right. You're not going to bring the person who's used to living in the B class property or better to the C or D, let's say C minus or D or a worse area.

JW: Absolutely. And then once you've established that, you figure out what your risk tolerance is. That's another thing the Tenants From Hell Show helps investors. You could be a first-time investor listening to the show and you're like, "I could deal with the rough stuff. Let me handle the tough stuff, man. I want that cash flow. James said I can get $1,500 in rent for 40 grand." All right, brother. Pump them brakes. That's cool, man. I have a lot of properties in the ghettos. The ghettos made me a wealthy guy. But if you're brand-new, I don't want you going into this with blinders up. So that's why that show is there.

So, you might be thinking, "Ah, dude. How bad could it really be?" Is it tough? A guy like me, I deal with this every day. We evict a hundred people a year. I could deal with it. I can understand it. But, dude, you got to have the right stomach for it. So that's what the show is for. It really gives investors a real look at this. I told you about the eviction, right? $16,000 turnover cost, but that doesn't really paint all the stuff that really happens. So, before you even get into screening, if I may, I just wanted to just talk about a couple other wild stories just briefly.

WS: Yeah.

JW: I don't want to bore you guys. If you guys want to see the whole story, obviously watch the show. But just stuff we got to deal with. At one point, the house that I personally live in, it's not titled in my own name. At one point, I had a tenant who looked up where I had actually lived with my wife. We don't have any kids at that time, thank God. But he had looked up where I lived and threatened my maintenance team members every time they were over at his apartment building that he would threaten them, tell them where – He would read off my address to them, telling them that he would be coming to my house one day and setting on fire. So, I had to take the precaution of moving from that home and actually titling the home I currently live in in a completely different name to remain semi-anonymous.

If you have a lot of properties in just rough neighborhoods, well, who do you think lives in rough neighborhoods, guys? Rough people, dangerous people. So, there is that. That's messed up story a lot of people would think stuff like that happens.

We had one woman. It was around Thanksgiving one year, Whitney, and it was storming like crazy. The day she kept calling the office, we had voicemail after voicemail of this poor woman. She lived in the second floor of an apartment building of ours, and she's just calling in the middle of this rainstorm upset because water is coming into her dining room because a couch got thrown through her dining room window.

Now, I don't know if you caught that, brother, but she lives on the second floor. Okay? So, this poor woman lives on the second floor of this apartment building. It turns out the freaking yahoos that live a floor above her found out that they had bedbugs, which is another thing that's super common when you get into the low-income stuff. If you guys want to see some wild bedbug stories, you bet your asses I got those on the show with actual footage, some freaking dime-size bedbugs, y'all.

But anyway, so this poor woman, she's got water coming into her dining room from the window that's got a couch through it on the second floor, because these folks above her, they found they had bedbugs on their couch. Of course, to them in their drunken stupor, they said, "Oh, we got bedbugs. Of course, naturally, the solution is to right now, in the middle of the night and in the middle of this rainstorm, open our third floor window and just chuck the couch out the window." That made sense to them. Just other stuff.

I own a really large building, a huge building. It's like 40,000 square feet. It's nicknamed the sex motel. And the reason it's nicknamed the sex motel is because it's in the C class neighborhood. But it's probably by far an F class asset. This thing sat for probably 25 years in a C class neighborhood of Cleveland. It was probably the sore spot of the neighborhood. The rest of the neighborhood is pretty decent, but I would say this was the building that was bringing the neighborhood down.

The owner of said property, he just rent it as a motel, and it's not nice. It's not like Days Inn or Ritz-Carlton or even – It's not even really like a Motel 6. Lower quality. Essentially, the guy was renting rooms by the hour for about 20 years. So, prostitutes, drug addicts, that's the only type of people. Just transient, rough, tough, nasty, gross people. Those are the only type of people that would patronize this motel. A huge motel, it would be like 38,000 square feet.

So, I'm a broker. The guy hires me to sell the building. I can't sell this building, man. I tried for a year and a half, and I'm a damn good broker, man. I am the number one seller of rental property in the Cleveland market. I'm good at what I do. I couldn't sell this thing. We would get people in there, and they would try to buy it, and then they would just back out last minute. The building was old. It was rough. It was tough. I couldn't really finance it, because the guy is doing cash business, renting rooms by the hour. You go there, and there's actual prostitutes wandering around. Looks like zombies from The Walking Dead, man, drug addicts. It's rough, dude. It's nasty. It's called the sex motel.

So, I couldn't sell this thing, man. So, I'm like, "Screw this. I got to do something here." I'm like vested in this project. In this neighborhood, I owned a large apartment building across the street actually. So, I'm like, "Blah, blah, blah, blah, blah." I decided we dropped listing. I buy the property from the guy. I removed the entire motel business from this thing like, "No motel. Get rid of that." In the process of redeveloping this thing, turning it into apartments, we had in the motel, there is like I think 38 motel rooms. But there was also 10 apartments where he had people living.

So, we didn't kick all of them out. We wanted to keep some folks still in there. We got rid of the motel business, got rid of the prostitutes, all that type of jazz. You need to keep some type of bodies in there, because you can't just leave these buildings empty, guys. People will break in, and you'll have to evict them, and they'll strip the building down. You can't just leave it totally empty. So, you need bodies. Even if they're not the best bodies, sometimes bodies will help protect your asset. It's a different ballgame, man. It's a different ballgame when you're in these rough neighborhoods.

But anyhoo, let's try to put a bow on this. Long story short, a couple of the bodies that were in the building got into an argument with each other. I believe there's a monetary dispute. I believe it was for a sum somewhere in the ballpark of $20, and one guy was slighted by the other guy. So, the other guy decided as a means to get even with him for the $20 being stolen from him, he was going to set his car on fire. The only thing he knew about the other guy's car though was that it was a gold car. Problem was there is actually two gold cars in the parking lot. Apparently, two of our tenants had gold cars. So, what do you think happened to both of those cars, Whitney? Boom! Both cars up in smoke.

That's the type of stuff, that happens. So, it's not a simple and clean as people pay rent, they don't pay rent, you evict them, you pay a little bit of money, and you move on. These are real people. They have real lives, real stories, and not all of them are going to run the straight and narrow. So that is why I like to do the Tenants From Hell Show. That's why like to present this. That's why I come out. I'm rough. I'm uncensored. I'm not PG. It's a rated R business. I'm a rated R dude. I want to present to you guys exactly what's happening.

If you guys can watch that stuff and after that stuff and after that, you're like, "Hell, yeah, man. I'm still all systems are go," then let's get you into those D class assets, because you're going to roll with us when those things are going to happen.

But if after the stories, you're like, "Whoa. Whoa. I want nothing to do with that. That sounds terrible. There's easier ways to make money," now it makes sense why folks are paying $150,000 for a relatively similar amount of rent to avoid dealing with individuals like that." You ain't setting cars on fire in a B class neighborhood. You know what I'm saying?

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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