EPISODE 1502

[INTRODUCTION]

Sandhya Seshadri (SS): I stayed away from the 4 Ts (of real estate) – the tenants' toilets, trash, and termites of single-family rentals. And I heard about multifamily, like really large-scale 100-doors kind of deals, where you could employ third-party property management to do all the work for you. And that just made a lot of sense.

Sam Rust (SR): This is your daily real estate syndication show. I'm your host Sam Rust. Joining us today is Sandhya Seshadri. Sandhya is an experienced hands-on apartment investor focusing on the acquisition and asset management of large multifamily in the Dallas-Fort Worth area.

Her other life roles include PTA mom, homeschooler, engineer, part-time instructor, and stock trader. Sandhya has invested in over 4000 doors as a general partner or a limited partner. She currently manages six properties in the Dallas-Fort Worth area and has completed a full cycle on two of them exceeding projections to investors.

Sandhya, thanks for joining us. So good to see you.

Sandhya Seshadri (SS): Great to be here, Sam. It's an honor to be on your show. And, I'm very excited to have this discussion.

SR: So, there may be some folks listening that are familiar with your background, you're quite active on LinkedIn, and in various spheres. But, maybe for folks who are coming across you for the first time, I've always been fascinated by your story. In fact, I've relayed your story to a number of people through the years as kind of what real estate can do for people. So, could you just sketch the journey that brought you into commercial real estate and where you are today?

SS: Like most Asian geeks, I have a strong math background and that led me to engineering college. And, I followed the traditional path we're all taught to do which is you know, get a degree, get a job, keep working in corporate America and retire. And, then that's the end of it. Tthere's nothing else out there is how we're raised to be. And instead, once I started in corporate America, I realized very quickly with my engineering degree that it's always the business folks telling us what to do with as the engineers just execute. And so, I wanted to get on the other side of it.

So my company was kind enough to pay me to get an MBA. So that's where I got all my business, finance and stock market kind of knowledge. And once I became an investor, rather than just a W2 employee, that's when I really started seeing my money multiply. And I always wanted to have something to do with real estate. However, I didn't grew up with a handy person background. So I always had this nightmare of somebody calling me on Thanksgiving Day with a leaky toilet that I had to go fix. So I stayed away from the 4 Ts. You know, the tenants toilets, trash and termites of single family rentals. And I heard about a, you know, multifamily, like really large scale 100-doors kind of deals, where you could employ third-party property management to do all the work for you. And that just made a lot of sense.

So that me as an operator would be more of an asset manager, looking at financials, figuring out how to execute the business plan, and have people actually go ahead and do that for us. So I learned that at a weekend seminar and joined that mentoring program right away. And that's how I was able to scale quickly.

SR: Oh, that's fantastic. And now today, you're very involved in several different projects. You're a thought leader, I see your name all over the place. What's your big passion today? What drives you forward? You've had a lot of success professionally, both in your engineering past and now in real estate, what keeps you moving to the horizon?

SS: I think just improving communities really gets me all excited. I'm like a PTA Mom, I love to feed people, I love to see people, smiley faces. So, I love doing community activities at all my apartments. And so periodically, we'll do things like our Halloween costume contest, Christmas door decorating, contest, school supply, drive, Easter Egg Hunt, etc. So when you do that, right, when I moved to this country, I stayed in an apartment, and I had $8 a week kind of student food budget which is just crazy to think of. And I went to a private college in this really fancy neighborhood called Highland Park in Dallas. And I saw how, you know, the so-called well-off rich people live. And I wanted to bring that community aspect, that culdesac field back to my apartment communities.

So by doing all these activities, at a periodic basis at our apartments, what we're able to do is we're able to build that community, get a connection between our property management staff and all the residents together. So the benefit of that, again, is that now people will tell us if there's any problem. If there's a problem, residents always having weird stuff going on at their apartment, making a lot of noise or, you know, funny business at night, etc. We hear about it.

And so, residents keep getting their own family members more and more into these properties. I love seeing that because now I'm creating my own little Highland Park sort of neighborhood at every one of these apartments. For an investor, why does that matter? Right? Well, we improve our renewal rates, right? We have a target of at least 60% renewals and you can improve on that get it closer to 80%.

Because when you have difficult economic times like we have right now, if you are able to increase your renewals, then you reduce your economic vacancy because retention, you don't have to spend all that money to turn a unit who knows if somebody has been living there more than five years you might have to spend and several thousand dollars to turn that unit, you are definitely going to be paying more in material cost and don't have to spend more than $10,000 a door to upgrade that unit. And all those days that you're upgrading it, you're not collecting rent.

So, what that means is renew it, give them maybe a new fridge, a new appliance, a new band, something like that and get them to stay. That's what we're trying to do at our community. So by making people happy, this is what you are able to do is retain and help.

SR: I appreciate all that detail. And that heart for community, we have a lot of those things in common. We're using a nonprofit ministry called Apartment Life that embeds coordinators into your communities and runs residential events. I'm curious for you, your boots on the ground for a lot of the investments that you make there in the DFW area? How often are you holding events? What's the cadence you try to hold to? How involved are you personally? Can you flesh it out a little bit for us?

SS: I like to do it at least once a quarter just to bring that feeling but in between our property manager has full authority to you know, do something more often if it makes sense at that time. And, we typically get it out of our marketing budget, or we can always request a vendor to sponsor something for us as well. So in the summertime, you know popsicles by the pool as an example, versus around the holidays, we might have a couple of more events right between Halloween and Christmas, we try to do something to celebrate both. And sometimes, you know, it's also Thanksgiving.

So we were able to get a nonprofit to help us give out free Thanksgiving turkeys. And so we ended up doing two or three events at a time. And during Covid, we did a lot more as well, because the community was feeling very isolated and scared. So at that time, we felt the need so we dropped off, you know goodie bags at their door, toilet paper and sanitizer and things that were hard to find at that time.

SR: You mentioned a lot of the classic tenant events, right like popsicles in the pool during the summer and Easter egg hunts and Halloween costume contests and door decorating. But, is there anything that maybe is a little bit further off the beaten path, it's a personal favorite of yours that you've done and it has been really well received.

SS: Actually, they love the turkey, you know, free Thanksgiving turkey. But, an interesting one we did was for Mother's Day, we handed out a long stem rose to every mom in the complex. And it's not a very expensive thing to do. But it was more of the thoughtful gesture kind of thing with a cute note attached saying how much we appreciate moms and moms are a special kind of little card, you know. And so that was a cute and nice thing to do. During Covid, we have this truck come out and have a movie on it. And people brought their own lawn chairs and sat socially distanced and watched a movie, a family movie. So that was fun too.

SR: One of our properties, actually several of our properties in I guess it would have been May of 2020, we got connected through a set of events with a couple of farmers who grew vegetables and fruits for the local farmers market. And obviously, all the farmers' markets were shut down. So we ended up buying all their products for a couple of weeks and putting together food gift baskets, and fresh food for our community. That was a phenomenal way to both help some local businesses, but also to just provide some good nutritious food at a time when people were fearful and trying to sort what was up from what was down.

SS: Amazing. I love that idea.

SR: So we're in a slightly different environment Sandhya than we were a year ago. And I think your comment about trying to reduce turnover through these investor events or through these community events is really apropos. What other ways are you guys looking at as operators to find efficiencies to continue to drive value for your investors in the surface wave of rising interest rates and that markets becoming a little bit more challenging?

SS: I think a big one is always if it ain't broke, don't fix it. So once you have, you know, if someone moves out, you've got to go in and make that unit ready for the next resident to move in. You don't have to replace everything, especially the unit is already pre-leased. Just go ahead and do a basic make really.

I mean, does your resident really care whether you know you've got, I don't know a stainless steel appliance versus black? Some might but most of them don't care or if the countertop is really resurfaced versus granite, right? So Don't pour a lot of money into something unless it really needs fixing, you know, do the basic stuff, which is fixed leaks, make sure there are no holes in the wall, make sure everything is clean, safe, and comfortable like your air conditioner is working or your heating is working right?

Focus on the basic comforts that you have to give your residence and then don't do some of these extra little things that are going to add up to an expensive upgrade. Don't spend 10k per door on an upgrade, right? If you could do it for 2k That should be your plan and do it in-house through your own make-ready staff rather than contract labor because that's gonna get expensive.

SR: I assume you guys use third-party management is that correct?

SS: Yes, we use third-party management a lot of people do you know where to get integrated and have it in-house? But when we do third-party management, it's important to tell them you know, don't feel like you're spending other people's money like the government's. It's money and you know, keep it safe. I'm sorry. You got to rein it in, like it's your own money like it's your own spending. That's a big one.

And then finding all the hidden pennies in the couch, right? So people spend money on internet access, right? So if you can bring that in-house, and you can offer that internet to your residents at a lower cost than what they would directly pay, that's a value for which they would be willing to pay you. So instead of just saying, you need to pay me $200 more, because I got your granite countertop and a stainless steel bridge. Instead, you could say, "Well, maybe you pay me that $40 or $50 for internet access, versus paying $85 to that, you know, a local internet provider."

So find ways to add value to residents and what they're willing to pay for. So washer dryer connections, having in-room laundry is very, very useful in the winter and in the summer for you know. So people are willing to pay $50 more for that than $50 more just because you put in something new in the property right? And amenity you added a playground, so you want them to pay $50 more. Yeah, it's nice to have but I'd rather appreciate those laundry machines in mind.

SR: And I think what you're speaking to Sandhya is just the importance of the asset manager paying really close attention to what moves the needle, and what looked good in an offering memorandum to investors but may not actually drive value to the tenant. And I think at times, it sounds good that you do all stainless steel appliances. And you even alluded to this earlier, but do tenants really care?

And if we're honest, and a lot of the working class communities, they want clean housing, they want decent appliances. If they're black, white or stainless, they're not really going to pay a premium, especially as the market shifts, we're definitely seeing more seasonality across the country, kind of a return to normalcy, actually. It's normal, that third and fourth quarter rents would dip slightly. I'm curious what you guys are seeing across your portfolio in the DFW area, are you guys seeing a return to that seasonal impact as well, where rents aren't just up into the right at infinity?

SS: The rents, we're still able to get our pro forma rents across our properties. And we haven't really had to reduce the rent or offer a huge number of concessions. Again, we're focusing on renewals. So when we have send out those renewal notices, we're trying to offer a free appliance or fan or something to keep them. So our turnover is especially low during the holidays as typical. So, so far, we haven't had to offer any concessions yet across all my properties.

SR: That's fantastic. I think we're seeing the same thing is still able to hit that pro formas, which some of that goes back to conservative underwriting, right, you're not taking top of the market and then inflating that by a couple of percentage points. But we are seeing broadly, traffic is at more normal levels for this time of year. Rents aren't progressing at double-digit paces in our markets. So there's definitely, I don't even know, there's a lot of people that are throwing out words like softening or maybe recessionary or de-inflationary. I wouldn't go anywhere near that far, but just would say that it's a return to normal and what you typically see in the holiday season.

SS: And you know, the real page had a charge now for October of 2022. And they said that 95.6% of renters paid their rent for the month of October. For anything that is, you know, not subsidized, not low-income housing, for which renters just pay market rate. So that's really good news.

We've got properties in areas like Irving, Carrollton, Garland, etc. And we're not seeing any kind of a slowdown where our occupancies are in the high 90s. We haven't had our property management come back and say there's any pushback on the renewals or even the new leases. So, hopefully, this will continue. And generally, when there's a recession in the rest of the world, and the rest of the country, you know, Texas chooses not to participate.

And if you look at the new companies that have just established their headquarters in the DFW area, it's kind of nuts, right? And sometimes there are some areas like Austin, where I think the rents just went up way too high, right in 2021. So there's a little bit of a reset on that to say, "Okay, let's be reasonable." So, you might see the rent growth, definitely slowing down or even rent slightly drop in certain areas like that, where it was insanely high. But I'm not seeing a slowdown yet across our properties at this time.

SR: When you look to the future, where do you see an opportunity for growth in the next six to 12 months?

SS: I think there are a lot of deals that were on the bridge that from two, three years ago, we're all looking to either refi or exit. And unfortunately, the interest rates aren't great for a refi. So those folks are looking to get out. And in that case, we can help them by buying those properties that are rated, you know, at a lower price than what we might have paid for it at the beginning of this year. So there's that opportunity.

The second one is people who are just done executing their business plan and no longer want to continue their deals which are on an agency that you can get them on a loan assumption. So I think there's still opportunity especially if you believe that five years from today, a building here in Dallas Fort Worth, that's my favorite market is going to be worth more than what it is today. Right? I don't think that fundamentals have changed because of the job growth, population growth, diversity of jobs, and all the other economic factors that are moving here, right?

And I'm not afraid of a 7% interest rate, it is just one more number in your spreadsheet and cap rates and interest rates kind of go hand in hand. So when you're underwriting spreadsheet, instead of that number being three or 4%, like it might have been in 2021, you just plug in a six or 7%. And you know, at what price this deal still makes sense? I mean, my first home loan, I think I paid seven and a half percent. And then you know, it's just another number in your spreadsheet.

SR: I think that there's a whole group of investors and maybe even including us in that that came of age over the last 10 years and start investing in syndications. And there's a lot of these rules that were trotted out about what cap rates do visa vie interest rates. But the last nine months have made me go on a little bit of a research quest. And just what did markets do in times of higher inflation or how has the treasuries and the average interest rate tracked?

And there are some very interesting notes, one of the things that I was looking at was the early 2000s, post 9/11, there was a time where the cap rates were actually underneath the 10-year treasury for a sustained period of time. And that's something that broadly yes, the 10-year treasury is going to set the market for most of our interest rate. But it's possible, especially in an inflationary environment for cap rates to not move quite as high or at least quite as fast, especially if rent growth continues to stay strong. It doesn't even have to stay as strong as it's been the last two years. But if it just returns to what it was in like 2015 to 2018, there's still going to be a lot of demand, it's going to be one of the safer assets around.

SS: We just look back at our underwriting for some deals that we acquired back in 2020 and 2021. And by the time we get the year two numbers, our rent growth that we actually projected was only about 2%, maybe 2%, somewhere with 3%. That's not a huge record. It's always that year one when you do your new leases and your turnover, your tenant base that you have that large rent increase at the beginning, and after that it kind of stabilizes.

So when I look at those numbers, I'm already at my year three pro forma numbers on some of my deals that are just going to be you know, a year old, kind of so I'm not seeing a slowdown at all in certain markets like Dallas Fort Worth. So I think some of that general information you see and hear in the news is not really applicable in specific markets like I think Nashville, or in Dallas, right? There are pockets there that are never going to feel the effects of the recession, like, you know, a New York or California or Illinois, etc, is gonna feel.

SR: I mean, the first rule of real estate of any kind is location, location, location, right? And so there's a honey trap that the media will set for you says look at these national statistics, and then extrapolate fear doom and gloom, or happiness and euphoria, depending on what the statistic is to your specific market. In the DFW market as a perfect example, I mean, the tailwinds, are just incredible. If you look over the last 15 years and the growth and what's projected to happen over the next 15 years. A recession will change things slightly and timelines, but it's not going to change the overall trajectory. There's much bigger factors at play, than is the economy doing well that are driving growth in areas like Dallas Fort Worth, like some of the rocky mountain areas that we invest in.

And it really comes back to market focus. And I think we share that philosophy that if you pick those right markets with the demographic tailwinds, I say this I feel like every week to investors, but if you pick the right market, and then you focus on the downside, it's hard to go wrong. It's really about not becoming over-leveraged and placing your chips on the right markets.

SS: I mean, wages are going up, right? I'm paying so much more for maintenance staff, property management, etc. than I was a year ago, six months ago or two years ago, right? Though I see wages going up all over, I see a lot of labor unions being able to win arguments with their companies to get higher wages, better benefits, etc. So I'm not seeing the kind of slowdowns that news media's propagating, just to scare everybody, at least across Dallas. And I think there's a lot of great opportunities coming up with loan assumptions and those low-interest rates or you know, the bridge loans that need some rescuing.

SR: Starting to sound a little bit like a shark. I like it Sandhya.

SS: I'm helping them right? I also have deals on bridge that I would love to get rid of next year. Right? If the price is right, you know, it can be a mutually beneficial arrangement. I've actually got a deal on permanent debt that you know, we're done executing the business plan and yesterday I'm gonna get a much lower price for it than the beginning of 2022.

But guess what, the yield maintenance penalty also has come down because of the rising interest rates. Somebody could assume that long or they could get new debt. And either way, there's pricing for it. So at the right price, it's a mutually beneficial deal. It's not really like you're kind of squeezing money and profits out of the cellar. And it's only a win-win for you. And it's not for them. There are many situations that are going to come up where it's going to be great for both sides.

SR: What's one habit, Sandhya, that you've developed over the years that has led to it or contributed to your success?

SS: I think persistence and always finding a way to make things happen. Like when I wanted to move to this country back in the day, right, my parents made 50 bucks a month in salary, and I wanted to come here, and college is going to cost me over $10,000. So I had to find a way. The traditional path wasn't gonna work. You know, take all my parents' savings and afford it, that wasn't going to work. So it's the same way with how the heck do I go buy an apartment building down the street when it cost tens of millions of dollars? Well, somebody found a way to do it. And it's not just the rich people who have their money sitting in the bank. It's called syndication, right? So there's always a path. And if someone else's path doesn't work for you, you carve your own.

SR: Well said. That's the entrepreneurial spirit that we need more of in this country. Well, Sandhya, it was fantastic to have you on the show. So great to see you again. We drove a lot of value today. I appreciate you. If investors want to learn more about what you're doing, where can they reach out to you?

SS: The best place to find me is on LinkedIn, that's the platform where I post a lot and I'm frequently there. They can also find me on my website which is multifamily4you.com, where it's multifamily number four you dot com. And they can just send me a quick message and we can interact from there.

SR: Fantastic. Well, thank you, Sandhya for joining us today. Thank you to our listeners for joining us on another episode of The Real Estate Syndication Show. I'm your host Sam Rust, signing off.

[END OF INTERVIEW]

[OUTRO]

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