EPISODE WS1605

[INTRODUCTION]

Will Matheson (WM): When you're just starting out, I always tell people, 'Do not commit to a long-term timeframe on a project; you're just starting out. And when you're starting out, you're probably starting with smaller properties. We started out focused on very small properties because of equity raising. It's easier to raise equity when you have less of it to raise. But don't commit to a seven-year time horizon because you've got to believe in yourself if you're starting out.

[INTERVIEW]

Whitney Sewell (WS): Today on your Daily Real Estate Syndication Show, we have a guest. He started in multifamily as a broker but then he moved fast into being an operator. Y'all asked me so often, man, how do I get started, Whitney? How do I get started fast, especially if you are young, and man, you feel like nobody's gonna take me seriously? Or how do I do this? Right? How do I get started? Or how do I find a mentor or find another group that I could partner with?

Our guests today did just that. He's gonna tell you how you did that by adding value to another operator, and his name is Will Matheson. He started Matheson Capital with his brother Evan, when they were both 23 years old. Since dedicating themselves to the company in 2018, they've been involved in over $100 million worth of multifamily and student housing acquisitions in the Carolinas.

You're going to hear Will today elaborate on numerous things. I mean, they've done a lot of different projects and some heavy value, add stuff, even starting with a duplex. But then quickly getting to you in a 168-unit project. And you're gonna hear how he did that. Why he did that? Even some hard lessons learned along the way. Will, welcome to the show, honored to have you on.

Not just everyone jumps into multifamily at 23, like you and your brother have done looking forward to this. I know it's gonna encourage a lot of our listeners, but man, you've done a lot in a very short amount of time. And I love it when good things come together, right when you guys scale, and it doesn't come without a lot of dedication and hard work. So welcome to the show.

WM: Thank you for having me. I appreciate it.

WS: Yeah, Will give us a little more of that background. You and your brother are sharing, both at 23. What did that look like? Why start then why jumped into multifamily then give us a little bit of background how you had the confidence to move forward doing your own deals.

WM: So our company, Matheson Capital - a very clever name, it originally started in 2015 when we were 23, and we were brokers at Marcus & Millichap. And essentially, we didn't originally intend to go into multifamily. We had a client and a 1031 exchange. And they split their exchange into two different properties. And they had a million dollar equity shortfall.

So our first bit of entrepreneurship, entrepreneurialism, was actually providing them a hard money loan for a million dollars, we put a first lien on another property, they owned all cash. So we raised the money, but the first lien on it. And we held that for about 16 months from honestly, August 2015 through almost the end of 2016. So that was when we were 23. We got the multifamily bug back in January of 2018.

We're still 25 at that time, and that's when we bought our first deal, which was a duplex in Los Angeles. And from there, it's just been gradually growing bigger and bigger. We went from a two unit deal to a six-unit deal. And I mean, one of our most recent acquisitions is 168 units. We've just been scaling up like so many others over the last five years.

WS: So you went from a two-unit deal to a six-unit deal to 168.

WM: I might have skipped over a bit because I didn't want to go into too much detail. But yes, it was two units, six units, another six-unit deal, 15 units, 24 units, 32 units, 32 units, 69 units. We had the opportunity to partner with a firm 100 times our size because we were able to add value on a couple of their acquisitions.

And after that point, we were able to do 168 units in our last two acquisitions where we were lower-unit counts, but they were Class A properties. So we did a 48-unit 2018 construction deal in Charlotte. We did a 20-unit 2007 construction deal in Boone, North Carolina. So we've run the gamut from the 1960s product, 1970s product up to 2018. And class a product we've been all over that spectrum.

WS: So you mentioned there, you partnered with another firm that was 100 times your size, but you added value to them. And we've talked about that so many times on the show. Everybody's always asking me about how to get started on all this stuff. And we won't spend a ton of time here. But I just want to draw that out a little bit there.

What was the value you added to them and how did you make that connection to them and show them that you could add value enough that hey, they're willing to really partner with you or assist you and move forward as well.

WM: So I mean, unsurprisingly, they definitely took the lead on that project given the discrepancy but it's a firm based in Texas, and I believe this was their first acquisition in North Carolina, they were specifically going into a market boom. Where I had been working ever since my brokerage days at Marcus & Millichap. So, one of our first North Carolina acquisitions was in Boone back in 2019. So we knew a lot about that market, we had more expertise, honestly, in

that market than anywhere else. So when we heard they were trying to buy, I knew the owner through a mutual connection.

So we just connected on the phone, we pitched him an idea essentially saying, We think you can increase your NOI. I can't recall the percentage anymore. But if you follow X,Y and Z steps, as opposed to a more traditional model, we think you can add a lot of value to investors. And you know, we had the opportunity to then raise some money on that project and help out and get our name on it.

WS: Love that. I hope you know, those who are getting started who are always asking me about, you know, Whitney, how do I find that operator that's willing to really partner with me? Or allow me to partner with them? What can I bring that they don't have?

All that and I just love mentioning that because that's exactly what you did there. Right? You had the knowledge and expertise, but didn't have anybody there yet. And even had a connection to the seller, which is interesting.

WM: Not the seller, we had a connection to the buying firm.

WS: Okay, to the buyer. Awesome. And that's incredible. But then you reached out, right? I mean, you took that step to reach out to them. Is that accurate?

WM: Yeah. I mean, the worst that was gonna happen is they were gonna say no, I mean, we found ourselves in a position where we were bidding on a prop. Our largest acquisition to date had been $8 million. It was a $25 million property. So I mean, look, we were probably not going to win anyway, given their track record as compared to ours.

But as soon as we knew we weren't going to win that one. We said, hey, look, I believe in this market, I believe in this property. I think I can get in touch with these guys. And we made it happen. And it was a great opportunity to work with them and learn from them and see what they do. And it's really helped us grow.

WS: So why are you so focused on that market? Carolinas southeast, what's right there for you laser focus there?

WM: Well, I mean, I'm originally from the southeast. I was raised in South Carolina, I went to college in Georgia, my first job was in North Carolina. So we just like to invest in markets. We know it just so happens that the southeast has become the hottest market in the country, except maybe Texas and Florida. If you don't want to count those as southeastern, let's just call it the Sunbelt. But that's where I'm from. I like the market. I like living here.

And also for people starting out a lot, you know, my network was here, which means my investors were here. So it's easiest to go into a market where you can get your investors comfortable, and people are most comfortable with what they know.

WS: Yeah, no, no doubt. It's helpful. When you're that familiar with the market? Why not dive in? Right there. It's similar to what we did when getting started as well. You know, let's shift gears just a little bit. And, you know, let's think through this, this multifamily stuff we talked about often value add, or, you know, or stabilized assets. And I think, you know, partly what you all have done has been some heavy value add is that right?

WM: We started with really heavy value add projects starting, you know, in buying our first property when we were 25. Our thesis or investment thesis was, 'I'm not going to ask an investor to marry me for the next 10 years on a 10-year hold.' I mean, when I was starting out 10 years ago, I would have been 15. And I was in high school, like, who knows where we'll be 10 years from then. So we told him, Look, we're going to come in here, we're going to do a pretty significant value-add program, and we're going to be in and out within a couple of years. I don't want you to marry me, I want you to give me a chance.

Let's go on a few dates. And if I can deliver, let's move on to the next one. So I mean, of the dozen acquisitions we've been involved with seven of them have sold, another one has been refinanced. But yeah, we said, let us build our track record, let us earn your trust. Because, you know, there's always someone with more experience than you. We didn't want to offer coupon clippers for the next decade. We wanted to say let's get you in and out. Let's prove that we know what we're doing. And let's move on to the next one.

WS: Yeah, speak to how did you have the knowledge though, to do that? And that skill set to jump into heavy value add? Was that from experience with being a broker and learning just the process about how other operators are doing it? What was that for you?

WM: So being a broker definitely gave a lot of insights into property valuations. What's a good value? What's a bad value? How are we going to gauge the exit? But I mean, to put it bluntly, we definitely had some trips in the first couple years. My brother and I have a twin, Evan. He, he and I have given lectures at our alma mater just as guest lectures on how to start a company and we have a slide of five things not to do When you're starting out, and four of them are things we learned in our first two years 2018, 2019.

So we definitely had to learn things the hard way on some deals. But fortunately, yeah, thanks to that brokerage background, we're buying it really good, or basis is bases, we're buying it on a good basis, we were getting out. Obviously, you know, in hindsight, it turns out the market was continuing to move us forward nicely. But we definitely had to learn a lot during those first two years.

WS: Yeah, maybe give us a couple of those lessons, or a couple of those things that you could give the listeners right now not to do.

WM: Okay, so off the top of my head, when you're just starting out, I always tell people, 'Do not commit to a long-term timeframe, on a project. You're just starting out. And when you're starting

out, you're probably starting with smaller properties, we started out focused on very small properties, because of equity raising, it's easier to raise equity when you have less of it to raise. But don't commit to, you know, a seven-year time horizon, because you've got to believe in yourself if you're starting out.

And you've got to tell yourself that, hey, seven years from now, I'm not going to care about this 24-unit property, I'm going to be on to bigger and better things. So you don't want to, you don't want to tie up a deal for too long with the debt. You don't want to over invest your own capital, you know, you're not in this business to buy one property, you're in this business to buy 10,12 Whatever that number may be.

So you don't want to over allocate your resources. Man, that was one of them. Don't over allocate. I don't know if confidence is the right word. But you have to understand that no one cares more about this project than you. We've had to change property managers before because we didn't feel like they were prioritizing our properties enough. And that's, you know, this is your career. This is your company, this is your future, you've got to deliver, especially on these early deals. So you've got to focus on that, too. That's a few of them off the top of my head.

WS: Yeah, no, that's great. I just couldn't keep from asking you to share a few of those lessons. Right. But I want to go back to, you know, heavy value--

WM: Yeah, for sure. I wouldn't advise that either. Unless you are partnering with someone who is very experienced in ground-up, especially if you're just starting. You 're focused on heavy value add, but then I think you've gotten a more stabilized asset route. Maybe tell us why and what does that mean to you, as far as when we say stabilized assets? And then why have you gone that route?

WS: One more that I remember. And I'm sorry, don't do ground-up development if you're just starting out. That is a really risky business. Okay. It is much easier to buy something that already exists. I know some people have done it. Kudos to them. There's a lot of risk involved with that. That's not for me right now.

WM: So a few reasons. Number one, it's hard to find some of that heavy value-add stuff, especially that seemingly every property has had four owners over the last 10 years. And at that point, it's not a heavy value-add. I'm generally somewhat skeptical of the value add market at this moment, because it fits had three value add initiatives, I do not want to be trying to do a fourth one that property's essentially stabilized. So, you know, one, it's harder to find, but two, they're harder to find than they used to be.

But also, as we've successfully exited multiple projects, as we've come full circle, our investor list has grown, we've earned more of their trust. We have a track record that can attract new investors. And we can focus on building a portfolio that's not trying to just chase that really quick

IRR that can chase the long-term trends that we've seen in multifamily. I mean, not just over the last decade, but over the last century. So it's just you know, it's a bit of a different priority.

WS: Yeah, no, I agree. I see the value-add terminology often. And it looks like a project that was built within the last two years sometimes, you know, so like, what is that plan? You know, how are you considering it a value-add project, but sometimes there is but I want to dive in sometimes there; I don't know. But now I completely agree, you know, or should be stabilized potentially, right? If they've had four or five, value-add, quote, you know, plans in the last, you know, eight to 10 years, like you said that like, I don't know, but what's next for multifamily? What are you all pursuing? You know, as far as how you feel about what's next for multifamily and what's happening in the economy?

WM: So we are still actively looking for a multifamily. We're actually under contract on a property right now, loan assumption. I'm very proud to say 3.32% interest rate. So those are hard to find, but multifamily, following up on what we said, I'm fairly wary of the value add space, especially because brokers are good at their jobs. I don't just say that as a former broker. You know, I say that because I talked to 20 of them and if they listen to this, I want them to know, but brokers are good at their jobs.

They make an efficient market. And again, there's only so much value that can be added on some of this work. force product moving forward. So we're primarily looking into newer properties built in the last 20-25 years of value-add; story's a little more straightforward, maybe they just haven't had anything done to them in the last 10 years because a few bought them. Maybe there's really not much value at or there than just raising the rents with the market. I'm still bullish on multifamily long-term. I mean, we obviously invest in every deal with our investors.

So we're bullish on the long-term aspects, I don't think it's going to become an easy year to build. That just seems to be the general trend over the last 50 years. So you've got to be careful, you got to pick your spots. But in general, the long-term again, the long-term outlook, everyone keeps saying the fundamentals are still in place. It's just the debt is hard, supply is limited, as far as deals on the market.

WS: What does that mean to you? And you say, you know, fundamentals have the fundamentals still in place?

WM: I mean, especially in the southeast, you still have really good supply and demand. We are a growing market. I know the stories out there, rent growth has slowed or gone down and a lot of markets over the last six months, there's a lot of new supply hitting the market in 2023-2024. How much of that decline in rental activity or lease rates is because we're out of leasing season? I don't know how much of it is new supply. I don't know. I don't try to parse that too much. I just know it exists.

But the Sunbelt is still growing, there's going to be a huge gap in deliveries by 2025. I've heard the term survive 'till 25 several times. It's a great, fun phrase. But you know, in the Sunbelt in the

southeast, we're still seeing population growth, we're still seeing, I mean, to use an example: Charlotte had new deliveries constantly for the last decade, and it's still absorbing them all. I'm not saying that's going to be you know, as rosy as it always has been in 2023. But I'm bullish on the long-term outlook of these markets.

WS: Yeah. So you're planning to keep continuing to buy over the next 12-18 months?

WM: Absolutely. Yeah, like I said, we're under contract. Now. I was actually touring five properties yesterday night for a nice, fun day. We think there's still opportunity, obviously. The debt makes it tough. But I don't know if this is a controversial opinion, Whitney, I think it's always tough to buy properties. You know, either the debt market is really hard. There's limited supply, you know, that makes it hard. Or if the debt market is really cheap and easy, like it was and everybody is trying to buy stuff. So there's a ton of competition, the price is getting a bit up. It's never easy.

WS: I agree. I agree. It's chugging along a little bit every day, right? It doesn't matter what the mountain looks like. Whether it's yeah, hard to climb one way or another, it's gonna be hard to climb. And I think that's beneficial for those who keep pursuing it every day, right?

So you know, no matter what happens, or whether you believe it's going to be a massive downturn, or it's going to keep growing over the next 12, 18 months, how are you preparing for the worst? When you're looking at a deal right now, you know, and I think it's interesting even from a broker's perspective, when you get to see other operators and how you know, how they look at deals and whatnot. But for yourself, as you all are pursuing deals, how do you know you're prepared for some kind of downturn?

WM: So generally speaking, at the most basic level, we are generally a low leverage firm, we've never gotten to the bridge, we never got into the bridge loan craze, we've not used prep equity. At this point, we've typically been 65-75%, LTV, even on these value-add deals, which provide fixed rate loans on everything where everything where we can control it, we do fixed, right.

So that provides a lot of stability to that. As far as moving forward, obviously, cash flow is huge right now, you want to be positively levered going into things in this market. And if you're not, I want to see a very direct value-add approach. I don't want, you know, new thermostats that are going to raise my rent $25.

And I'm going to my 80s product that's gonna be $50 below the 2018 product. I want to see very clearly, this has been done here, this has been done there with a very direct positive cash flowing right away. I don't you know, it's not crazy, like it wasn't 2021, 2022. I had one broker I talked to think he phrased it best when he said for the first time since 2019, agency underwriting standards are back in fashion. You actually have to underwrite DSCR if you have to underwrite certain LTVs. And I thought, man, I wish I thought of that. Thank you, Blake. Yeah, like, Katie said that to me.

WS: That's awesome. Adding value to him as well. I know and we shouldn't be doing that anyway, right. I mean, I think give us some of the here This often and I always like to ask, you know, when you're thinking about underwriting, your base says we're conservative and all that. Just what about reserves? How do you all look at reserves for your projects, or even company one,

WM: That always comes down to a deal by deal basis. Or if you're buying a newer, you know, Class A property, where your tenants are some of the least rent-burdened people, you don't have a big Capex budget, if you have a CapEx budget at all. You can keep your reserves lower or I mean, we always have something but when you're still doing some of that heavy value-add, you have no idea how it's going to be taken, you might have hundreds of thousands of dollars sitting there just as a reserve.

So, I don't pretend that we have a hard-and-fast rule on it. We size it up by the deal and the tenant base and what our business plan is. So you definitely want to have them.

WS: So no doubt about it. No, I hear all over the place. So I just wonder how others are planning and in no cash, you crash? Right? So I'm just big on having ample reserves for our projects? And what about your best source for meeting new investors right now?

WM: I mean, right now, we've always been a relationship-based firm. I mean, we again, starting out in our age, you start with friends and family and you grow up from there, we do get a lot of referrals, or investor retention is really great.

But I mean, we've, we've met investors in seemingly every way possible. And my brother, my brother has gotten investors off of Bumble, I've met investors off of just charity events, I just ran into a guy and he said, Oh, that's what you do. Tell me more. He's a great investor for us. We get them in all sorts of ways. But really, it's just as soon as you deliver for someone, you ask, is there anyone else I can talk to? Let's grow the business that way?

WS: Did you say Bumble?

WM: It was Bumble.

WS: Yes. I don't even know what Bumble is. It's a dating app. My brother has gotten it. He's raised hundreds of thousands of dollars off of a dating app. Wow. That's a new technique I've not heard of, and I'm not sure I'm willing to try it. I've never tried it. What's your best advice for passive investors right now?

WM: I mean, my best advice for passive investors, you want transparency from your sponsors. A lot of people have had great stories over the last five years. I want to hear you know what happened when a deal went sideways, you have a deal going sideways right now.

But again, kind of our own underwriting standards, make sure you've got cash flow going into that thing. I know there's some situations where you can look at, you know, a five cap, a five and a half debt, and there's a really clear path to it.

But if it starts getting convoluted, and that's that fourth generation value-add, those are the most rent-burdened like workforce tenants that are very rent-burdened right now, unlike Class A tenants, so I'd be very wary, I'm not sure you're gonna get those rents.

WS: What's the most important metrics that you track, could be personally or professionally?

WM: Professionally, it sounds silly to say, we're a big IRR based firm based on our you know, the fact that we did so many short-term holdings. But as far as metrics to track, I have a daily checklist that I try to check off 20 things a day. I know at least six of those are just hobbies that I'm trying to stay on top of learning French, I'm terrible at French. I met my wife and French class, so I didn't pay attention. But this consistency every day, I mean, it sounds so cliche, and I apologize for that.

But you want to make sure you're moving forward. I think James Clear in the book, 'Atomic Habits' just talks about the British Cycling Team. They focused on being 1% better at everything going all the way from their diet, their sleep, the width of their seats, there's something and they went from being awful to being one of the best cycling teams in the world within a decade. You just have to have consistency.

WS: Yeah, love that gives us the top two or three things on that list. You said there's 20, which is a big achievement right there. 20 things to check off every day. But what are the top two or three things?

WM: I mean, for me, personally, I try to solve a chess puzzle a day, I try to learn French at least once a day. Business, I will tell you, business it changes every day. You never know what you're gonna have to do. But I just like having it in front of me. So it could be you reach out to this investor, you reach out to this broker, follow up on this deal.

But you know, it's its own reward when you get to check that box and you get to see the ticker just climb up and up and up. But personally, it's very consistent on a day-to-day basis. business wise, it changes every day.

WS: Well, how do you like to give back?

WM: So my brother and I, since it was founded in 2020, I've been involved with a homeless veteran shelter here in Charleston called Low Country Veterans home. I used to be the president, now the vice president. He's held office, we're both on the board.

But it's a great program that helps, you know, take the homeless veterans, get them off the street, give them a place to stay for, I want to say up to four months and we transition them into

permanent housing. It's been a great success. We're going on two and a half years of operations. At this point we've tried gradually adding over 100 people from the program. And that's how I get back.

WS: And I love that. That's incredible. It's great to provide that opportunity for those individuals on a path to something better, right, and steering them a little bit. I mean, what an amazing way to give back a lot of that. Well, thanks for sharing that. Appreciate you, just giving back to us today. And just yeah, and how you got started, but as a broker, but then, as you know, getting into multifamily, how you really found a larger operator to add value to to partner with to grow quickly.

And then even some lessons that you learned the hard way that you could share so we don't we don't do those same things, as well. I think it's such a challenge that 20 things a day that you're checking off are just the fact that you know of 20 things that you need to do every day. And you have a list. I mean, that's challenging to me right there that you're that structured and that disciplined about those things.

And I couldn't agree more. It's like the daily consistent actions are what moved the needle, the biggest over time. And so just grateful for that challenge there. Well, how can others get in touch with you and learn more about you?

WM: Oh, I like to think I'm pretty easy to find on LinkedIn, just Will Matheson in Charleston, South Carolina, should be pretty easy to find. There's also our company MathCap.com. So yeah, the best way is to get in touch with us. You know, if you do decide to join our investor list at our newsletter every month, we make it a priority. Anybody who signs up, we always get on a call with them directly, see their investment criteria, see how we can help out.

[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 the 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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