

EPISODE 1625**[INTRODUCTION]**

Mike Bonadies (MB): You're going to be doing a lot of Section 8 in these rural areas because a lot of people fall underneath the poverty line and have Section 8 vouchers. So you need to have someone who is well trained in or have multiple people and depending on your size that are well trained in going through the pace the paperwork, making sure rent increases occur me understanding what an RFTA packet is, how to fill them out, how to make sure we get that voucher from someone who's applying to someone who is living in the tenant living in the unit, and then having that that communication with Section 8.

[INTERVIEW]

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today our guest Mike Bonadies. He is the co-founder of TerraVestra Property Management, a company that specializes in property management and services for landlords, but he has such a unique area. And you're gonna learn a lot from his systems that he's put in place to manage some hard properties, right? I mean, these are old properties in some rural areas, some Section 8 stuff. So if you are thinking about investing in properties like that, you should listen to this interview for sure you're gonna learn a lot from mine. Is managing hundreds of units in a rural part of the country the same as maybe luxury apartments somewhere else? Probably not. We're gonna hear about just that today and expert, Mike, welcome to the show.

MB: Whitney, thank you for having me on, sir.

WS: Yeah, honored to have you and I'm looking forward to the conversation because I know there are many listeners who have units that they're gonna relate to the stories you're gonna tell us and things we're gonna learn from you, I know you're gonna provide some insight to them, you're managing I think, was 600 units right now in a rural area, as you called it, I want to hear more about that. So you can provide some context to the listeners. Before we do that. What was before property management for Mike? Give us the little details there. And let's dive into the management business.

MB: Yeah, I'll keep it short and sweet. I mean, I was probably one of your more standard upbringings into the landlording life. I started off in the corporate world, I worked for Stanley Black and Decker, the tool company famous for DEWALT Power Tools, I actually did some P&L management for them. And then I went into an industrial electronics company, I got super bored working in a corporate life, and I was someone who was always a workaholic. So I wanted to be able to control the outputs, if I was going to put unlimited inputs into my work behavior. And then a buddy of mine said, Hey, you should check out landlording.

And I actually became a landlord first. And then I became a property manager afterwards, but I bought a couple deals to buy in, there was nobody to manage properties effectively in my area.

And we then started to build a management company off that and we grew because people really liked what the management product we had. And we work which I think a very important part to our property management equation is we're from the area and the area that we operate, which is deep south New Jersey, you really do need to have someone who has a working knowledge of the area in order to effectively operate. So that's how I became the property manager.

WS: That's interesting. A few questions there. And I want to highlight their deep south New Jersey like I've never even heard of that before you say if people say the deep south, you know, you think of the deep south of the United States, right? Deep South New Jersey, that's so interesting. And maybe describe that area a little bit that you're talking about, because there's probably a number of people that are like, wait a minute, you know, New Jersey is not that big. But what does that look like in the deep south of New Jersey? Mike, what kind of area are you managing?

MB: Yeah, I'll give specific counties and then I'll describe them. I mean, specifically, we're looking at the lower three counties of New Jersey, so Salem, Cumberland and Gloucester counties. But what does that mean? So New Jersey is known as an urban abomination, right, like the suburbs of New York City or the suburbs of Philadelphia. And a good part of a state is, but there are portions of the state specifically towards the part that hangs out on the peninsula. That is very rural, and I mean, very rural.

To put things into context. I own a farm. I'm living on a farm, I wear cowboy boots, I go out to my neighbors, they wear cowboy boots, they have farms, most of the area, like the average town size in the areas we operate in is around 3,000 to 5000 people. We do have some bigger towns that we operate there. Fifteen to 20,000 people but we're talking rural, and a lot of our tenant demographic is either factory workers; they're working guys, forklift drivers, very blue collar, farm labor workforce, H2, a visa program, for those of you who might know, the farm visa program. Yeah, a very rural area compared to, let's call it Newark, or Jersey City, or like multiple people stacked on top of people, nothing like that. This is very much a rural area and the housing stock around here also reflects that as well.

WS: Okay, well, I know there's many challenges that are different from other challenges, right it whether we're managing luxury class A or even Class B or some C even in other markets. Starting with there's two inner units all together in a big area in the business plan for these properties, I would imagine they're gonna be very different as well, or somewhat different, or the owners are going to be a different dynamic as well, I want to dive into that in a minute. But you're starting a management company, you may I mean, we've done it as well. But I did it with a team. Now, you know, it wasn't the first thing that I did. You just jumped right out of the gate and started a management company. How long ago was that? You started the management business.

MB: I think I became a landlord six years ago, or six and a half years ago. And I started the property management company about a year after that. So it was about five years ago. Yeah,

we started off with just like three people. And now we've got 17 people. So it's grown. .Yeah, it's definitely a different beast than just buying the property by itself.

WS: It just sounds like you've grown really fast, right? Over five years. Now, you're 600 units. And in that you're in a rural area like that, right? Sounds like you'd like to dominate those two or three counties, like you're talking about, in a big way, speak to what helped you to dominate and grow that fast in that area like that.

MB: Yeah. So I mean, you really need to know your tenant, tenant demographic and your housing stock, you know, you're not going to come into the state, well, let me take a step back and say landlording is always or real estate is always very region specific. And this and we're no different, right, we just knew the region that we were going to operate in, we're very much a work force, blue collar, affordable housing Section 8 landlord, because that's who the people are, that are inside this area, we knew that. Additionally, New Jersey does have some unique barriers of entry, which are unique just to the state.

In New Jersey, there's the existence of townships and municipalities, which for those of you who are not from New Jersey, the best way to describe it as a small little fiefdoms that exist across the state that have their own rules and regulations on top of the state's rules and regulations, and you need to play by their rules. I work with that, that local town, it's very much a small town politics area. So if you're, you know, if you're trying to operate a rental from let's call it California, in New Jersey, or from New York City in New Jersey, or you're going to struggle, because you don't need a lot of these townships that require in-person activities.

And therefore you need to have someone who is local, and that is, you know, for better or worse, that's by design by the town's so it does limit, you know, who can operate in those areas? So we were able to dominate because or do well, I wouldn't say foreign domination, you do? Well, because we had people in the area who understood how South Jersey operates. We know the people, we understand the type of demographics, and I understand the towns.

WS: Yeah, it sounds like, you know, if I was the landlord there, and I knew a major company that knew those things. Well, I mean, that's who I'm gonna want to work with. Right? And it sounds like you all have done that, in a big way. Talk about some of the differences in now the type of properties that you're managing, you know, we talked earlier a little bit about the average building, you know, when they were built, right, you know, speak to some of that, because there's a whole nother layer of difficulty behind some of those things.

MB: Yeah, so when you're on the East Coast, you have a lot of older houses. The average age of our house when our average house was built was somewhere between 1890 and 1910, 1920, around that time frame. So we've got lots of houses that were built prior to code existing, they were built by your great grandfather's grandfather, and he wasn't using architectural plans, he was building it, right. Like, he didn't have power tools. And he was just figuring it out as he went. So we also do a lot of Victorian conversions.

So you know, you find multifamily properties. So like the one to four, and even up to the one to 10 units, they were actually prior, probably a single-family house, that was a Victorian conversion at some point. So a lot of our houses are older, which means our maintenance problems are a little bit more difficult than your standard maintenance issue, you have to have a thinking cap and you have to kind of troubleshoot all your problems because nothing is straightforward, you occasionally you get lucky and you can get renovate some of these properties. But often that's not the case. And you have to put your thinking cap on every time you want to solve any problem. So that adds to the complexity already, especially for a Section 8 landlord that can, you know, adds another level to it all

WS: No doubt about it dealing with something that's that old. What about you know, I was thinking about the owner of these properties, right? Well what's their plan typically or business plan for this type of property as well in and in this kind of area? You know, that's this rule.

MB: Yes. So we see primarily two types of owners in this area. The first one is probably a little bit more with expectation because it's affordable housing because the houses are older, it tends to be more affordable to purchase an into landlording so you can see more or less quite rookies that get in here or smaller guys that just want to buy one or two test out landlording get the feel for it and grow their portfolio that way.

So we've got a couple guys that started off with one or two and then exploded to Have 30, 40, 50 units, because the barrier to entry was lower. And then they're the other type of demographic. They're not REITs. But they're effectively REITs, where they buy hundreds of properties, because there's such a low barrier to entry, and they can dominate the market through purchasing. So we got almost the exact opposite of the very seasoned pro that says, this makes a ton of sense, because I can buy up a good swath of the town and really control the product and really control and push the town forward. And we've had some customers go in, buy entire blocks and change the block, right? What if people, a lot of investors say in theory, I can make the block better? No, no, these guys are actually making the block better because they bought every single property, and they clean house, and they make it really nice. So we've got both extremes. We don't have a lot of the people in between, but we've got both extremes.

WS: Wow, that's interesting. And then what's their plan? I mean, can you raise rents? Can you increase the income, you know, what are your rents and increase income?

MB: A lot of these guys are very long-term asset holders, most of the people that invest down here are not looking to get rich, Quick, get rich, long and boring. So you can increase rents. But I think you hit a point that's really important for other property managers and landlords to focus on, you have to think about the economics of the area that you operate in.

So one of the key things that I do when looking at properties or looking at an area is I find out what's the average income of the area that I operate in. Because that's the disposable income of the people in that demographic, I can work backwards on what is affordable rent from there. And, you know, given let's say if if an average income, so the average income, I think, for

Cumberland County is at this time, I want to say for a household of two, it's around \$43,000 to \$48,000 a year, I don't remember exactly off the top of my head.

But you know, let's take the standard equation that a lot of landlords use, which is your gross income sp three times the rent, well, if the standard, or if the average income is 48,000, you have to divide that number by three. And then you've got what people can afford. Now you can list the property more than that. But you're going to push people out of anger, you're going to have a small doubt. You're going to lessen your pool of potential tenants. Now that's critical in an area that's very rural. Because if you have a town of 1,000 people, and you only have 500,000 people, and you only have maybe 25 households that rent 30 households that right, the more you increase your rent, the more your tenant pool becomes. So it's very important.

WS: Yeah, that's interesting to think like that. Okay, if there's only 25 families that are renting in the entire community, man, we're not going in there and building a bunch of rentals. Right? Yeah. So wow, what about, you know, just to help us to think through some other differences between, you know, rule, you know, management like this versus luxury or larger apartment communities and other years that maybe I wouldn't even know to ask you?

MB: Yeah, yeah, absolutely, I think there's two things we can touch on, which is one is like the bureaucratic work of dealing with Section 8 dealing with a lot of Section 8. And then the other is maintenance, because that's also a little bit different in these rural areas. The first one is Section 8, right? Like, you're going to be doing a lot of Section 8 in these rural areas. Because a lot of people fall underneath the poverty line, they have Section 8 vouchers. So you need to have someone who is well trained in or have multiple people and depending on your size that are well trained in going through the pace the paperwork, making sure rent increases occur me understanding what an RFTA packet is, how to fill them out, how to how to make sure we get that voucher from someone who's applying to someone who is living in the tenant living in the unit, and then having that that communication with Section 8.

So now all of a sudden, something you know, a leasing activity, which just might be the leasing team. In a luxury apartment, finding someone who has that white collar job moving is not just a one and done process. It is a constant ongoing process of, Hey, okay, we got this voucher. And now we have to make sure we have someone notify the tenant on annual renewals, we make sure that we notify the tenant on their annual inspections, we complete all the paperwork.

And as you're probably aware, the government isn't the most efficient at doing what they do. So it's constantly having someone remind the Section 8 case workers or the section a team, hey, we did XY and Z you need to do one, two and three, or hey, I'm following up for the third time on this thing. It's constantly following up because the K and don't get me wrong. I'm not blaming the caseworkers in any sense here. They have a lot of cases and not a lot of staff to work with. So it's constantly helping them do their jobs because they're overloaded.

This is very different from luxury housing where you're in a luxury housing and a white collar, tenant demographic. You're gonna have people Pull that are relatively responsive and have a

different sense of responsibility than you might have with a Section 8 tenant demographic giving, especially like we work a lot with mentally handicapped individuals or physically handicapped individuals, they might not be able to sign some of the paperwork or get some of this stuff somewhere else.

So we need to be able to help them out and remind them or maybe it's you know, we don't handicap individuals Beaubois send someone else to get you know, signatures as needed or explain something to their fiduciary or deal with their power of attorney to have them explain it on to them. So that's very different, right? There's so much more steps you have to take just to get a simple task done, versus luxury housing. Does that make sense? Does it make some ton of sense?

WS: Yeah, no doubt about it. Those systems are crucial to know have experts right, that can help those individuals like you're talking about? Are there other systems that are crucial to that type of property management versus the other, like we've been talking about that you've had to implement? Yeah, so maintenance is hit like, well, we'll do the maintenance side of Section 8. For those of you who might not have any experience in Section 8, they have annual inspections, you get fail lists from them and say, Hey, landlord gets to do X, Y and Z tenant, you have to do XY and Z, do you get to say, hey, it was built in 1890.

MB: That's sadly not an excuse for them. And so you have time limits for all these repairs, and you need to be able to complete them quickly. But the issue that we constantly run into is the state is hiring new employees, so they don't have a lot of construction experience, we have to take pictures of everything that gets done, make sure it's all well documented, because we might have to explain to an inspector, hey, the reason the spicket doesn't work is because it's been winterized or the winter and the water needs to it ain't getting turned back on until summer. So things like that.

But then also, you just need to be well documented, because so many things get lost in the bureaucracy of the state that if you're not constantly documenting 100, everything, you're going to lose somewhere. So it's just document, document, document, get everything to the case, workers, you try to make their job as easy as possible, like something that we do is when we have a repair list, we'll take pictures of every single repair, we'll send over the repair list, we'll send over all the maintenance tech notes.

And sometimes, hey, tenants cause damage to their own units, especially in Section 8 housing, and we have to report that out to them. Because if not, it's the landlord who ends up holding the bag on it. So that's something that we have to be careful of. And then additionally, you do need to have someone who is constantly ensuring that the rules and regulations are followed with the tenants and notifying Section 8 because it's not normal.

You don't just get to send out notices to quit in New Jersey saying, Hey, okay, y'all, you violated this rule. And guess what you got to get out, you know, that just doesn't exist in the state, or with Section 8, you have to notify Section 8, they have to send out adverse action letters. And I

mean, one of the things, you hear me using some very specific vocabulary, one of the key things is if you're going to be a big Section 8 landlord, you have to understand the section, the process, every part of it. How does a tenant come from being an applicant to becoming a tenant? What's their obligations? How does Section 8 interact with them, how does Section 8 interact with you, you need to understand all those parts. If you want to be on a larger scale, a Section 8 landlord, it is not just a side project of Oh, I think I'll have a few Section 8 tenants not add up. It is a full on endeavor.

WS: Mike, have you ever thought you know what, this is just not worth it having to deal with all these regulations, I could go start a management company, you know, right in rural West Virginia, or Virginia, or Kentucky or Tennessee, and maybe not have to deal with all as many anyway, regulations like that. And you absolutely have thought about that. The reality is, I'm from South Jersey, so I knew the area's the barrier.

Everything I'm describing right now increases the barrier to entry. That's right. So if you break the barrier to entry, you're set up pretty well. Also, the rent to South Jersey is very good returns on its properties, you will constantly like a one bedroom here; 1025 bucks in a rural town. You know, there's two beds in certain areas of the Midwest that don't even get 800 bucks or a two bed right? So our rental spreads are quite good. If you buy and purchase well, you can make a lot of money here, but you do pay for it with headaches. So you get both.

WS: Yeah, I wanted to follow that up, though, with almost what you said there initially was, I mean, you've come in and really created your own blue ocean, right, your own niche, but by dominating the knowledge needed to do it, right. And to make it happen, you know, the barrier to entry, like you said, is so high, but you've just come in and say, Hey, we're gonna find the experts or become the experts in those things that most people don't want to do. Right. And you know, I think that's a big ticket to your success and growing so fast, no doubt about it, Mike, a few final questions for you. Do you have any predictions just for the real estate market over the next 12, 18 months? Or maybe things you're currently seeing happen, you know, in your market?

MB: Yeah. So I don't think there's any real macroeconomic predictions that people can make on real estate. It's all regional specific, because real estate is ultimately, you know, the or you're living in a region, I'll say, in our area, the black swan is rents have always gone up, right, everybody says rents go up, I think this is gonna be the first time rents go down.

I think affordability doesn't make sense. In certain areas of New Jersey and South Jersey, I think rents are gonna have to go down, we're starting to watch millennials, and I'm a millennial myself. So I'll talk my own generation. I think a lot of people do not have the average millennial and cannot handle their own finances, we're seeing a large amount of people go say, Hey, I can't afford rent any longer. I'm going to leave at the end of the month, and I'm gonna move back to my parents. And then we actually confirm that they're moving back with their parents who sometimes I manage their parents as well, or their parents' household as well.

And we know that they're moving back in with mom and dad. So I think rents are going to go down a little bit, not a tremendous amount. But I think they're going to go down, which is going to be the people that bought three or four years ago are going to be in incredibly good positions, because they bought with three or four years as rent and the people that bought last year got burned. And I think they're the larger landlords that are more established and are able to buy out those properties. So that's that, I think rents are going to go down and we're gonna have a propensity to save being almost zero in millennials, it's not a great equation for rent continuing to go up.

WS: Yeah, no, I appreciate that. Appreciate the detail to just the thought process that you provide. Grateful. What about your best advice for investors right now, or passive investors or even, you know, people wanting to become landlords?

MB: Yeah, you find a region and you specialize in it, I know, it's become very popular to buy a couple properties here. They're all over wherever it makes the most sense. I think I'm quite in the opposite camp where you want to find an area and become an expert on it. And because you can understand all the nuts and bolts, you don't want to constantly have to adjust your rule set in your head.

Like, for instance, I live very close to Philadelphia, despite being in a rural area, about 45 minutes from Philadelphia, people have asked us why don't you go to PA and manage properties there. There's, like the word, a whole new bracket of landlord tenant law, in which most of my laws wouldn't be applicable, I would have to completely change my mindset to go operate in that town. Right. And even as a landlord that yeah, I could go hire an expert that way. But there's some rules.

There's some things that are illegal in PA but legal in New Jersey and vice versa. It's just much easier to become an expert in one area, I highly suggest that especially I mean, a lot of rookie landlords, they want to go and move to Oklahoma or find something in like, the very Midwest be like, Wow, this is a great area, because everybody else told me this is an area or just look in your hometown, because there's probably some opportunities that only you know about, because you grew up in your hometown.

WS: What about what are some of the most important metrics that you track? Could it be personal or professional? Either one?

MB: Oh, I was not prepared for this question. That's a good question. I look at total rent collection, I look also giving you the property management metrics. Because you know that it's a little bit easier. I look at how often consent agreements breach as a macroeconomic indicator of how well my tenant demographic is doing.

A consent agreement is a court order payment plan in New Jersey. And if they break it, they automatically get locked out of the property. We give very lofty consent agreements, so are not lofty, but very easy consent agreements. So if you owe 3000 bucks, you might just say pay a

reasonable rent plus 250 bucks, very affordable. They can stay in the house and we maintain a tenant, we don't have to do a unit turn. But if those tenants break those easy consent agreements, that tells me how well the economy or how well this tenant tenant demographic is doing.

I look at total eviction filings versus how many get paid off, and I look at our gross rent collections. Now you're speaking to a very subset, a specific subset of landlords out there. Look at your three and six month averages. Because if you're in a state that has high levels of rental assistance, you're the people that can't see the video right now. You've got lots of graphs sitting out there where you had maybe a December with 110% rent collection and in January at 95. So that really puts you at 100% Rank collection, but your months are all over the place because some months you got a lot of rental assistance, some months you didn't get a lot of rental assistance, and it came in so those are the metrics I look at.

WS: What about some habits that you are disciplined about that have produced the highest return for you?

MB: I'm gonna steal a quote from my best friend. He's a PhD he's got he's also equally successful but in a different area in life. He says the key to life is to ask and see. What do I mean by that? It just means putting your butt in the seat to do work. And say you got to wake up early, do work, and then keep working throughout the evening. And you'll get to a point where if you front load your work, it'll get a lot easier. I had the four hour work, leave work life and my own corporate job, I got bored of it. But all you have to do is front load work to you know, learn it, become an expert, and then the rest follows. So just do it. I know that's a lame one, but just do it.

WS: You do have to get it in there for sure. Experience means a lot. And how do you like to give back?

MB: So I joined the farming community just for fun. This is my new hobby. I farm my sheep and have a lot of livestock. I do sheep, I've met sheep, I give out the meat. I tried to help out with some farming activities and I took a lot of my farming products. I just give it out. I don't have a lot of free time but it's maybe a little bit of a lame way to give back to the community because it's it but it's you know, I have honey on my farm I have a knee and I have eggs. And I just give it back to the people in my area. You know, I drop things off to various people. And that's it. I tried to give stuff just specifically to my community.

WS: Yeah, so as a food is a great way to give back for sure. Well, Mike, grateful to have had you on the show. It's just interesting, you know, getting to talk to somebody who's dominated a niche right inside of property management. And I mean, you've really carved a niche down which I think has created a path for your success, right? Because you've just dove in there. Like you said, I mean, you've got your bottom in the sea, right? You know where you can just dive in and keep going where most people are not willing to do it right and you are willing to do it. And

congratulations to your success and continued success. How can the listeners get in touch with you and learn more about you?

MB: Yeah, you can find out more by going on my website which is TerraVestraPropertyManagement.com I'll also give out my email I'm happy to help out anywhere at rookie landlords it is mbonadies@tvpm.info. I'm sure you'll see my last name on the show notes so you can figure out how to spell there but mbonadies@tvpm.info and feel free to shoot me Hey, I'm thinking of doing this type of stuff and landlord What's your opinion might take two minutes to respond.

[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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