Ep #202: Veena Jetti - Understanding Real Estate Investment Syndications for the Passive Investor

Full Episode Transcript

With Your Host

Dr. David Phelps

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David Phelps: Good day, everyone. This is Doctor David Phelps of the Freedom Founders Mastermind Community, and Dentist Freedom Blueprint Podcast. Here today with somebody I actually had to look up, and drive about 30 miles across town to find, but we finally made it happen, Miss Veena Jetti. Veena, how are you doing?

Veena Jetti: I am good, thank you. Thank you for having me.

David Phelps: Yeah. Veena, and I have had a chance to kind of get to know each other virtually in some of the real estate investment forums online, and when I finally figured out that she lived in Frisco I think I just looked you up one day, I thought, okay, I got to figure out more about, because I liked what you were saying-

Veena Jetti: Yeah.

David Phelps: That's the first thing I do when I have a chance to go online, or I read what other people say, it's like well let me follow that person even if I don't agree a 100% it's like, well, at least saying things of substance.

Veena Jetti: Right.

David Phelps: You know? That's what I saw you do. I saw you be very diplomatic in the way you brought to the forefront your expertise and your experience on this case of multifamily, which we'll get into that in a little bit.

Veena Jetti: Yeah.

David Phelps: More later, but I just like the way you spoke, and handled yourself, and that tells me something about character, which is a big thing we, you and I both look at hard, because we deal with people-

Veena Jetti: Yes.

David Phelps: Real estate is about people. You have buildings, structures to hold the foundation, but it's all about people.

Veena Jetti: It is.

David Phelps: Right?

Veena Jetti: It is.

David Phelps: It's all about people, and managing people. Anyway, Veena is a partner in the ENZO Multifamily-

Veena Jetti: Company.

David Phelps: Company.

Veena Jetti: Yes.

David Phelps: Yeah. Thank you very much. I had a chance to talk a little bit more about her background, she comes from a family, a long lineage of being in the real estate. Her family's been in the real estate sector for like 30 years.

Veena Jetti: Yeah.

David Phelps: You kind of came from that, and you started like a lot of us in single family.

Veena Jetti: Yes.

David Phelps: Did about as much of that as you could handle.

Veena Jetti: Yeah. Too much-

David Phelps: Yeah. Because that'll run you thin-

Veena Jetti: Yeah.

David Phelps: After a while, but you did that, and then you found a partner through one of the forums, you both were at the same point in your real estate investing where you decided, you know what, let's see if we can multiply our efforts, let's leverage, and maybe go into a different asset class, which became multifamily-

Veena Jetti: Yep.

David Phelps: Right? You moved here with your husband five years ago to Dallas, Texas, north of the Dallas area, and started focusing with your partner on acquisition of multifamily units.

Veena Jetti: Yes.

David Phelps: Correct?

Veena Jetti: Correct.

David Phelps: What of that background did I leave out that you think might be important for people to know, or just in your decision making, or what your thoughts were? Did I leave anything out there that would be helpful?

Veena Jetti: No. I feel like everybody always asks me if you could go back in redo it, where would you have changed?

David Phelps: Yeah.

Veena Jetti: I always say I would have skipped single family all together and gone straight to multifamily.

David Phelps: Don't you think there was still a lot of things that you learned?

Veena Jetti: No.

David Phelps: Really?

Veena Jetti: No, I'm just kidding.

David Phelps: Nothing?

Veena Jetti: No.

David Phelps: Nothing good.

Veena Jetti: The reason I would have skipped it is because in the grand scheme of things real estate all like commercial, residential, everything worked fairly the same it's just how you're slicing the deal, and how you're looking at numbers, that's a little bit different. Right? You have your asset, you have your loan, you have your equity piece, and then you have your return, and how it's operated as a business. From the 100,000 foot view it's all very, very similarly structured.

Now, there're creative ways to structure within that, but at the end of the day you have all those same pieces. Hopefully, with property management somewhere in there, too. If I could go back and redo it I would have gone straight to multifamily, and maybe I would have started with a 10 plex or something, but I did it the hard way. I started one unit at a time, building it up, and you know it's a lot easier to finance larger projects than it is to finance smaller projects. I didn't realize that until I started doing multifamily.

David Phelps: Yeah. I will say it's easier to finance when credit markets are wide open.

Veena Jetti: True.

David Phelps: You know, we were talking a little earlier about the fact that we've in this kind of long bull run in the financial and the real estate sectors. All the money that's been looking for yield out there today, which has pushed values up. It's compressing margins. We'll talk a little bit more about that, because I know that's really important for you, because you're looking out for yourself, but also your investors-

Veena Jetti: Yes.

David Phelps: And how you structure things are really important, but so again I'm not being contrary, because I love investing in multifamily, too. I still do a lot in single family, and just for the record for my doctors who are just getting started in real estate, now, I don't advise them to go out and become landlords themselves. I don't advise them to go out and flip this house.

Veena Jetti: I don't do that either.

David Phelps: No. Veena, again, you said it well, you don't want to be doing it if we're talking about truly passive or semi-passive income, it doesn't mean you going out and doing it yourself. You've got to find partners, or people to work with, and take what I call participation.

Veena Jetti: Yep.

David Phelps: If you learn to participate with good people, and that's another thing we'll talk about, that's the key to everything, but too many people say, “No. I'll go out and do this myself,” or, “I'll try to buy some rental properties through my local real estate broker and I'll try to fix them up, and either hold them as rentals, or I'll try to flip them,” and it's like no, no, no.

Veena Jetti: Yeah.

David Phelps: My point with single family was just simply is single family always has multiple exits, you got at least two exits you can exit through, desiring owner occupants.

Veena Jetti: Yep.

David Phelps: You can also exit through investors if you want to sell off a wholesale portfolio. In our history single family has always been kind of bread and butter of our nations real estate, but like we said, you can certainly finance more easily in good credit markets and larger projects.

Veena Jetti: Yeah. Also, if you think about it, too, though, multifamily, especially on the scale that we operate at they don't really care about my-

David Phelps: Personal-

Veena Jetti: My personal, yeah, income. My debt. Yeah. They don't even look at the assets as much as they care about the operation of the building. Right? They treat it as if it's, its own entity.

David Phelps: Right.

Veena Jetti: Naturally, we have the network guarantee, and the close liquidity guarantee, but aside from that, they don't care if my DSER, my personal, my debt to income ratio on my personal financials is higher or lower than what the property mortgage is.

David Phelps: That does factor into single family acquisition-

Veena Jetti: It does. Yeah.

David Phelps: Personally, and those ratios can get a little tough, because they always have to have allowances for vacancy in which-

Veena Jetti: Correct.

David Phelps: Typically, are pretty high, kind of worse than average, but they have to play that game, the banks do, because they've got to watch their capital. Well, talking about financing then, how important would you say, Veena, is financing to a longer term hold strategy? In this case, multifamily, but financing out there today is historically very good.

Veena Jetti: Yes.

David Phelps: Right?

Veena Jetti: Yes.

David Phelps: Things are ticked up a little bit, but historically, I mean we're at all time lows. Do you and your partners look for a fixed rate, and how many years do you typically lockdown that fixed rate?

Veena Jetti: Yeah. This is actually an interesting time to be talking about this, because we're starting to see kind of a shift in the market, even two years ago, a year ago, it wouldn't have been unheard of, or extremely risky to take on short-term deposition, so what we call a bridge loan or mezz debt. Right?

David Phelps: Yeah, mezz debt meaning mezzanine debt.

Veena Jetti: Correct.

David Phelps: We have your senior debt, which would be like your bank first lean-

Veena Jetti: Fanny or Freddie.

David Phelps: Fanny or Freddie Mack that would fund maybe 70%-

Veena Jetti: Yeah.

David Phelps: Give or take, and then if you still would want to finance more you go to a second tier mezzanine debt, which is going to be a higher interest rate.

Veena Jetti: Right.

David Phelps: Right?

Veena Jetti: But, the intent of it is short-term. Right?

David Phelps: Yeah.

Veena Jetti: That's the key to it. It's all short-term debt. Some operators will take out a property, they'll use a bridge loan. Right? They'll take out 80% leverage and the reason they use that is because they can't get above the debt coverage constrains with the Fanny or Freddie. To explain kind of what debt coverage constrain means, for every $1.00 of income there is on the property, or sorry, of debt there is on the property, the bank being Fanny or Freddie what we call the agency lenders require a minimum of a $1.25 in income.

Some properties, especially right now in hot markets, in those primary markets we're not meeting those debt coverage ratios, so really it will be for every $1.00 of debt there will be a $1.05, or a $1.10 of income, so it's not enough to get quite up to 80% leverage in primary market, so because of that the max allowed on an asset let's say a $10 million dollar asset would be 70%, so now instead of getting eight million that you would have gotten maybe two, three, four years ago you're now only getting seven million, so you have to bring another million in equity to the table.

David Phelps: That's where the bridge lending comes from.

Veena Jetti: Bridge lending. Yes.

David Phelps: Because then your goal is, so you don't have to bring that extra equity-

Veena Jetti: Correct.

David Phelps: That extra loan, and so it's temporary, bridge funding is temporary, because the idea is within a certain period of time to come back and now be able to refi back out?

Veena Jetti: That's correct.

David Phelps: At the higher loan to value.

Veena Jetti: Yeah. You use the bridge lending just to get the deal closed. Right?

David Phelps: Right.

Veena Jetti: Then you spend that first 12 to 24 months operating the property more optimally, and so you're driving up your NOI either by increasing rents-

David Phelps: NOI, being the-

Veena Jetti: Net operating income.

David Phelps: Net operating income, so net operating income means your cashflow after-

Veena Jetti: Expenses.

David Phelps: All your expenses-

Veena Jetti: Before tax, and depreciation.

David Phelps: Yeah. It does not include debt service.

Veena Jetti: Correct. Before debt service.

David Phelps: That's your pure cashflow.

Veena Jetti: If you bought the property in complete cash, it's whatever you would walk away as your profit margin-

David Phelps: Perfect.

Veena Jetti: Essentially. Short-term debt is being used to take out the initial property, and then to reposition the property either through value add, increasing your NOI through various sources of income, so that might include adding valet, trash. It might include paid parking spaces, it might include just bringing the rents up, or renovating the units. You also in that period will typically try to decrease expenses if that is an option you'll know going into the property, so that might mean cutting staff.

It might mean implementing utility bill back system rubs. It may include reducing your marketing expense in places that are not really necessary. There's a lot of ways to decrease expenses. By doing that, the thought process with a bridge loan is that you now instead of having a $10 million dollar value, now it's worth 15 million, or 12 million, or whatever that number is, and 15 million is totally unrealistic, then let's say 11 million, or 12 million, and now you can go back to Fanny and refinance it out, you pay off the short-term lender, and you possibly have some equity in your pocket, which you're either returning to your investors, or you're keeping it for yourself depending on whose on the equity side of it.

There's a lot of short-term lenders out there, and there's a lot of operators that are taking short-term debt. I'm personally very hesitant to do so, we're pretty conservative in how we underwrite, and how we look at the deal. I always laugh a little bit when I say that, because no ones like, oh, I'm super aggressive. Everyone says they're conservative.

One of the ways in which we're conservative is that we are now not looking at short-term debt, and I never say never, right, because each deal is different, so there is a possibility that we do it, but if we do it, it would have to be a very, very compelling reason in this market. Now, when we're in a downmarket there may be an opportunity to do that again, but right now the market is just too tight. Everybody is overpaying for assets right now. For us, we're saying no to about 200 deals before we're saying, yeah.

David Phelps: I was going to ask you what your ratio was, so saying no to 200 before you pick that one-

Veena Jetti: Yeah.

David Phelps: That's kissing a lot of frogs.

Veena Jetti: A lot.

David Phelps: Yeah. You mentioned, which that was the other question is its tough to find properties today that you can finance on the initial acquisition at 80%, because DSR-

Veena Jetti: DSR, yeah.

David Phelps: Is not there, so you have to look at every property you buy as what the value add can be. You mentioned, you just ticked off a half a dozen things, easily, that's what you're looking for. Right? When you look at those 200 properties that you look at before you find that one, is that really the thing you're looking at, it's like what other factors do you look at when you're looking at those 200 before you pick one?

Veena Jetti: Yeah. We have a pretty rigorous rental process, and we go through multiple iterations of underwriting before we arrive at that, prints, so to speak. We initially started off by only focusing on certain market areas, so the Dallas Metroplex, and the Florida markets are two that we're pretty well versed in. Any other markets that we go into, we actually are working with an operating partner who does know the area well, and what we found is its impossible for any one operator who is our size for our partners to know 10 markets as well as we know our few markets.

David Phelps: Right.

Veena Jetti: Right? Our two-

David Phelps: Primary.

Veena Jetti: Markets. Yeah.

David Phelps: Yeah.

Veena Jetti: We found three is kind of the sweet spot in markets that you can really know inside and out, and you can be on top of the leading indicator, you don't want to be looking at lagging indicators, you want to be looking at leading indicators. An example of that would be job growth. For example, we just closed an asset in Jacksonville. We knew going in that there was a million and a half square feet that they didn't pull permits for, and we didn't know who they was, it was just being called, project Jaguar.

We've since closing we've found out that it's actually Wayfair that's putting up a million and a half square feet. Those are the type of leading indicators that we want to see. We want to see medical offices expanding. We want to see hospitals buying up ER's, and opening free standing ER's. We want to see just a general population of influx. Those are leading indicators that we look at when we're going into these markets, and that's why we really focus on those two to three markets.

David Phelps: Yeah. I think you're right. I think focus is the key. Too many people get spread out, and try to chase after too many rabbits in too many different markets-

Veena Jetti: Yeah.

David Phelps: They say, “Well, that's diversification.” Yeah, but that's also I think delusion of your ability to really know that market, and focus on value adds, your property management, which is so critical. By the way, how do you find your property managers? Do you ever have to go through several, or at this point, because you've got track record, and you stay in two or three primary markets do they just take on the new assets, they acquire pretty much?

Veena Jetti: Yeah. That was kind of going into this, I actually have to credit my partner, Sapan, because he's very forward thinking in that way. Right? He really laid the foundation for us to be able to grow, I'd like to take credit for it, but I totally can't, but, no, what he did made a lot of sense. We immediately screened out any property managers at the time that wouldn't be able to, or want to scale with us.

Also, technology was a big thing for us. All my partners and I we're fairly young, in our 30s, and so we all liked to use technology, and we like to use cutting edge technology. When we find property managers that are tech forward, or willing to adopt to our technological practices we really, really resonate there, and there's a lot of synergy there.

We have property management companies that we work with on various assets who have committed to growing with us, and hiring staff as needed, and typically that staff are people that are already in the industry, maybe at another company, or somewhere else in their portfolio coming into our portfolio. It's very, very important to pick the right property manager, because that's who's executing your plan, I mean, you're managing the managers, but they're there day to day.

David Phelps: Yeah. Exactly. Veena, how are you typically structuring your acquisitions with your investors? Because there's a lot of different ways that's done in the marketplace, and I think a lot of the people listening today probably would like to know a little bit from your standpoint, how you look at it, so that everybody's on the same team. These are longterm holds, which by the way, what is your exit plan? Do you have a certain term? Do you think you'll hold these properties, is it five years? Is it 10 years? I mean, how do you lay that out for your investors in your PPM's?

Veena Jetti: Yeah. We typically go into most of our assets with a five to seven year projection. If we can exit earlier, and boost up the return, we absolutely will, but typically I'd say five years is about the average hold period. Now, in this market we're starting to see some longer seven year holds, but that again goes back to what kind of debt we have on the property, does it make sense?

How we structure typically is because now we're debt constrained on pretty much every single asset we're going into, we also reduce risk by putting more equity into the deals. Two years ago, going to 80% was not really a big issue here in the Dallas market. Now, as ENZO becomes more conservative we maybe look at 65%, or 70%, and we'll put more equity into the deal. That's just to kind of hedge against a downturn in the market-

David Phelps: There's a downturn, and rents were flat, or actually even dipped a little bit-

Veena Jetti: Yeah.

David Phelps: Your cash flows would still be strong to support the market.

Veena Jetti: Enough to support, yeah, the project.

David Phelps: Right.

Veena Jetti: And continue cash flowing throughout the investment, so whenever we look at a deal what we look for is how soon can we return the investor principles? Whenever we return that, after that ultimately becomes kind of an unlimited return. Right? Because you have no principle risk.

David Phelps: It's an infinite return at that point. Right?

Veena Jetti: Exactly.

David Phelps: You got your original money back, and now it's just icing on the cake.

Veena Jetti: Right. Exactly. You're just collecting your mailbox money. The typical way we structure our deals is we'll do what's called a pref, or a preferred rate of return, that can be anywhere from 6% to 8% depending on the asset, depending on the market. There's certain other sectors of real estate, which go like 9%, 10%, just it varies.

Our projects are typically 6% to 8%, what that means is the first 6% of profit, or 6%, 7%, 8% of profit goes a 100% to the investors, for us as sponsors we don't get paid on that first 6% to 8%. After that, there will be what's called an equity split, so that will either be a 70/30 split, or an 80/20 split, or some variation of that where the vast majority goes to the investors.

David Phelps: Investors, still.

Veena Jetti: Yes.

David Phelps: Yeah.

Veena Jetti: Yes. Then we always put in a hurdle, what's called a waterfall, and what that means is once we hit a certain rate of return for our investors, and that varies from project to project, it could be 13%, 15%-

David Phelps: That's a total prep plus whatever the splits are-

Veena Jetti: Correct.

David Phelps: Once I hit a total of prorate of 13 or whatever percent it is.

Veena Jetti: Whatever. Right.

David Phelps: That's always in the subscription, the PPM. Right?

Veena Jetti: Yeah.

David Phelps: That's all spelled out, so someone can look at it and say, "Okay. I get it."

Veena Jetti: Yeah. Most people aren't going to read the PPM, because it's like 200 pages.

David Phelps: So, is there like a shortened version called-

Veena Jetti: Yes. OM. Offering memorandum.

David Phelps: Yes.

Veena Jetti: It's always in our offering memorandum, you know I can't speak to how other people put it out, but we make it very, very clear, and we're very proud about having a waterfall, or a hurdle, because what it does is it really, we get paid more the better we perform for our investors, so it really aligns everybody's incentives to make sure that the asset is operating optimally, so once we reach X amount of return then we as GP's, or general partners, or sponsors we get a 50/50 split instead of a 70/30 split. It just incentivizes us to perform that much higher and aligns everybody.

David Phelps: Yeah. If I'm an investor with you, let's just that hurdle, that total return for the investor was 13% then after that you as the sponsor start to make more money, but I've already hit 13%-

Veena Jetti: Mmmhmm.

David Phelps: Then I still get some of that-

Veena Jetti: Yeah.

David Phelps: Additional. Now, which keeps you very strong as a sponsor, as the overall manager of the asset, because you want to take that asset, and make it strong all the way through.

Veena Jetti: Exactly.

David Phelps: There's no skimming off the front end, and saying, tough luck investors we get what we get.

Veena Jetti: Yeah.

David Phelps: Which is the way it should be.

Veena Jetti: Yeah.

David Phelps: What about acquisition fees, management fees, exit fees, I know it's very across the board, can you tell us what you do?

Veena Jetti: Yeah.

David Phelps: Why you do it a certain way?

Veena Jetti: Yeah. Our typical fees, again, it varies from project to project, so it's never going to be flat across everything we do, but typically acquisition fees are about inward from 2% to 4%, again, it depends on the size of asset, location, some operators I know don't charge an acquisition fee at all. Typically, when an operator does not charge acquisition fees or they don't charge asset management fees, or any of those fees, as an investor, because I invest in multifamily, as well, but as an investor what that kind of indicates to me, or at least makes me look a little bit harder at underwriting is there enough money in the deal for everybody, or are we trying to make this deal work-

David Phelps: Make it look better than it really is.

Veena Jetti: Exactly.

David Phelps: Right?

Veena Jetti: Exactly. I mean, that's what's so counterintuitive about a lot of multifamily investing is people think, oh, this company doesn't charge an acquisition fee, this is great, but is it really, because why aren't they charging it, because it's a very standard fee, there's a lot of, like I said 200 deals, a 199 we've said no to, and we don't get paid at all on those. There's a lot of work, and time, and energy, effort that's expended into that.

David Phelps: Before you find that real good-

Veena Jetti: That one deal.

David Phelps: Yeah.

Veena Jetti: Yeah. Then, there's an asset management fee, that again will vary across markets. It can be anywhere from 1% to 3%, 3% is on the very high side, I would say two is fairly standard. Sometimes one and a half, and then there will typically be some kind of like a disposition fee, that's usually about a point just to manage and control the exit of the asset. That's fairly standard. Any other fees with any operator that you're investing with they should all be spelled out very clearly. I know we offer a sources and uses, so you'll see exactly where those funds are going, what they're being used for, especially the hard cost toward the asset.

David Phelps: Yeah. I always tell my doctors and dentists, I said, you know, you want to be investing with somebody, a company who is very profitable.

Veena Jetti: Oh, yeah.

David Phelps: Because if they're not, or if they're trying to squeeze a lemon out of a lemonade, and really tight, then it's not good.

Veena Jetti: Yep.

David Phelps: Because either they may give up the ship at some point and go, “We're out,” and you want everybody to be in there strong all the way to the finish. Yeah. I think it's very important that people understand. You don't want something so skinny that, you know, yeah, I'm getting all the profit, they're not taking out an acquisition fee, but wait a minute, why are they not? Because they're trying to make it maybe a not so big deal look better, and so I think it's a very important part-

Veena Jetti: Right.

David Phelps: That you brought out there.

Veena Jetti: Also, at ENZO three of our four partners only do multifamily. We don't have another daytime job. Our fourth partner works full-time in ENZO, but he works more hours than anybody I know. I don't know why he does it, but he does it. We're all dedicated to this very full-time, this is how we feed our families. This is how, you know my partners eat, so for us, we have to be performing, and we have to be doing well in order to number one have repeat investors, but number two if the deal isn't rich enough for us to get paid on then it doesn't make sense for us to do the deal at all, it's just too risky.

David Phelps: Veena, let's talk a little bit about due diligence on sponsors, that people like ENZO, and others who go out, and find the deals, put in time, and learn how to do that, bring the value add, equate the projects, so you got vetting of the sponsor, and got some vetting of the project itself, which again, so past investor, I'm relying on you all to give the reports back, "This is why we like this deal."

Veena Jetti: Yeah.

David Phelps: You know? Talk a little bit about that, because as you said, you also invest, and so if you're an investor looking, not ENZO, particular, but on the outside, what are you looking for?

Veena Jetti: Yeah. Kind of putting on my investor hat-

David Phelps: Yeah.

Veena Jetti: The first question I always ask any operator is if they're putting money into the deal themselves.

David Phelps: How often is that not the case, would you guess?

Veena Jetti: Often.

David Phelps: Often.

Veena Jetti: More often than you would think.

David Phelps: Wow.

Veena Jetti: I always want to know is the GP side putting any equity at risk.

David Phelps: General partner.

Veena Jetti: Yes, the general partner.

David Phelps: Okay.

Veena Jetti: Are you putting any money at risk, if so what's the total GP investment? I'm a person that doesn't particularly care if someone puts in 10,000, or a 100,000, or a million dollars, I just want it to be significant to you. I've had operators tell me, "Look, I can't afford it. I don't have the liquidity." But, one of their partners is putting money in, so I don't care where the money comes from, I just care that it's somewhere coming from the GP side, and on the other side, so that's always the first question I ask, and if they say, "No," I always want to know why, because if the sponsor side if I'm asking you to put your money into my deal, if I'm saying, I'm not willing to put mine in, that should give you some kind of pause. Right?

David Phelps: Right.

Veena Jetti: All of our deals, one of our partners invests into a minimum, but usually we're all fighting for spots. That's a first question I always ask operators. My next question is always going to be, why do you like this asset? I want to know, and again, the answer doesn't matter as much to me as have they thought this all through. Right? Because it's investing, at the end of the day everything has some amount of risk, but when I'm investing in an asset, I'm not investing in foundation and bricks, I'm investing in the team who can operate this in a way that I believe it should be operated.

I'm going to ask them what the business plan is, I'm going to want to make sure I understand this, and especially a lot of our investors are doctors and dentists, and one of the main things I tell them, because I think there's kind of a stigma around asking these questions, because it feels like everybody also learned this in school, but we were busy studying medicine-

David Phelps: Right.

Veena Jetti: And we didn't. It's not true. Nobody knows the answers to those unless you're on my side of the table, so ask questions. Don't feel bad spending an hour on the phone if you need to, to get comfortable with the deal, and if you don't feel comfortable, don't do it. There are so many deals, like there will be another deal coming along in 15 minutes, so don't chase the deal. You need to be comfortable, you need to understand it, and you need to know that, that is where you want to have your money placed, because this is a highly illiquid investment, this is not like a stock, or bond where you can sell it-

David Phelps: Right.

Veena Jetti: And call it a day. This is highly illiquid, most operators will offer to raise you out of the deals, so they'll try to help you get out of it earlier if you need to. I never recommend that to my investors, because the big payoff comes at the ext-

David Phelps: That's right.

Veena Jetti: Not during the hold period. Yeah. It's very illiquid. I always tell investors if they are not prepared to leave this money here for five to seven years, do not do it. You should never feel pressured. I know that there's a lot of high pressure situations and-

David Phelps: You better get in now, or you'll never see a deal like this one. Right?

Veena Jetti: Right. That's exactly what it is, and you might not, but if your gut is telling you no, then you shouldn't do it.

David Phelps: Yeah.

Veena Jetti: I mean, that's how I invest, personally, like my husband, and I, if I don't feel good about something, or if I think that it's not the right deal, there's a 100 of other deals out there, it doesn't need to be this one right now.

David Phelps: Yeah. Exactly. Speaking of your husband, I got to bring it in, because he's kind of like one of us, meaning, you know the doctors and dentists I talk to, he happens to be an anesthesiologist. Right?

Veena Jetti: Yes. Correct.

David Phelps: He is highly skilled, and highly trained, has years of education, is out helping the public, you know get through surgery cases-

Veena Jetti: Right.

David Phelps: And come out, you know, well, on the breathing side.

Veena Jetti: Yeah. On the alive side.

David Phelps: Heart beating-

Veena Jetti: Yeah.

David Phelps: Lungs respirating. So very, very important, and we know in those highly trained skilled careers all of the income is on the back of the shoulders of that person. In other words got to go to work every day, got to show up, got to do the job-

Veena Jetti: Yep.

David Phelps: That's great, but that kind of wears on people for a while, and I think the whole idea about what we love to do in real estate, what I love to do, what I know you do even though you've got an active job, but you're also building equity, and passive income yourself.

Veena Jetti: Yes.

David Phelps: For you and your husband-

Veena Jetti: Yes.

David Phelps: I think that's the big difference in looking down the road is that the problem for most highly trained professionals, who do great work, and can make a good living as long as they're working, there's none of this back end.

Veena Jetti: Yeah.

David Phelps: The back end is not there, you've got to go to work another day, another day, another day, and so building up passive income that's tied to real tangible assets in real estate for multifamily, that you can keep rolling over, and over, and over, and over again, and keep building more of that, that's really where the exit is where you told me earlier that you and your husband like to see yourselves you know be in a place in life where it's not that you won't work, and do something active, because your DNA.

Veena Jetti: Yeah.

David Phelps: Your family DNA.

Veena Jetti: Yeah.

David Phelps: Is about we're doing to do something productive in society-

Veena Jetti: Right.

David Phelps: Whatever it is, but it won't be a position where you have to go do it.

Veena Jetti: Right.

David Phelps: In fact, you said your husband right now could probably just retire, but without other things to be doing right now-

Veena Jetti: No kids, yet.

David Phelps: Yeah. He's got to be in something.

Veena Jetti: Yep.

David Phelps: The whole point is, is that I think, and you would agree that real estate has got to be one of the best wealth builders-

Veena Jetti: Oh, yeah.

David Phelps: Above anything.

Veena Jetti: I mean, we haven't even talked about tax benefits of being in real estate. I mean, it is just so tax advantageous for high income earners, it's almost a no brainer to have some amount of your assets invested in real estate. Now, I'm not a financial advisor, I'm not licensed or anything like that to give advice, but for personal portfolio, we used to do what everybody else did, and we used to invest some amount in the stock market, and we have our 401K portfolio. Now, being so entrenched in what I do I don't play any money in the market anymore.

David Phelps: I don't either.

Veena Jetti: I put not even a $1.00, and people think I'm crazy, but it's not something that I do as well as I do.

David Phelps: Well, you know what you're doing?

Veena Jetti: Real estate. Yeah.

David Phelps: You're focused. We're talking about being focused on something, and I think that's the key.

Veena Jetti: Yep.

David Phelps: For everybody listening today, and thinking, yeah, I know I tried real estate in the past, but I bought that rental house, and didn't like land-lording-

Veena Jetti: Yeah.

David Phelps: We talked, real estate is tangible hard assets, it's bricks and mortar, but it's always about the people.

Veena Jetti: People. Yep.

David Phelps: If you want to go through life and do everything solo, that's a great work ethic, but it's not going to get you very far to real freedom. If you tried doing it all yourself, and so you've got to learn, we have to learn how to find other good people, partner up, do the due diligence-

Veena Jetti: Yes.

David Phelps: And once we find those relationships do everything you can to maintain those.

Veena Jetti: Yeah.

David Phelps: That's what you're about with ENZO it's longterm. You talked about repeat investors, you don't want to have to go out and find a whole bunch of new investors, because you burned them on the last deal, I mean that's not sustainable. Right?

Veena Jetti: No, not sustainable.

David Phelps: As long as everybody's making money, and making wealth, just keep doing it, and when the market tilts or resets, which it probably will in the next year or two, we don't know exactly, but whenever it does that's just the time to go back and more acquisition-

Veena Jetti: Yes.

David Phelps: And just ride it back up again, but in the meantime the projects you're looking at because of your history, and what you know is you make sure that the cashflow is solid, you're not over financing them, so as you say-

Veena Jetti: Correct.

David Phelps: There's a little bit of dip or correction, those assets just keep on running right through, and you don't have a slowdown, you don't have an issue like a lot of, I call them, speculators, who do the short-term speculating, you know it's like they get caught. You know?

Veena Jetti: Yep.

David Phelps: That's not what we're talking about doing here.

Veena Jetti: Right. Those are the assets we buy.

David Phelps: That's it.

Veena Jetti: It's actually interesting that you say that, because one of our internal processes, I'll give you a little peek into what we do, but we do what's called a sensitivity analysis, so we stress the sensitivity of where we need to exit in order to be able to make the return that we are projecting when we go in. Then, whatever you see as like an external party is way different than what we see, because we always want to under promise and over deliver. Right? If I think we're going to have a 15% annualized return, I'm going to come to you and say, “Hey, what do you think? 13% is what we're looking at.” No ones ever been mad at me for writing them a check for more than they thought they were getting. Ever.

David Phelps: They didn't try to give it back and say, let’s not do this?

Veena Jetti: Never. No. If I write them a check for even a $1.00 less than they were expecting I get-

David Phelps: Sure.

Veena Jetti: Questions about it. It's just going in with that philosophy we stress test everything. We increase our expenses. We decrease our rents. We increase our vacancy. We do all of these things in tandem, and we do several iterations of underwriting before we actually adjust it all back to where we think it's going to be, and then put that up, but we stress test, and stress test, and stress test to make sure that we're using the correct metrics when we're underwriting. When I say we, I mean my partner, whose really good at underwriting. I know enough to be dangerous.

David Phelps: You all have your place.

Veena Jetti: We do.

David Phelps: That's why you bring complimentary, expertise, and skillsets, and that's what makes collaboration work.

Veena Jetti: Absolutely.

David Phelps: So, it’s what you got to do when you build a team of any kind.

Veena Jetti: Absolutely.

David Phelps: Who's going to bring what to the table? Veena Jetti, this has been really a fun conversation. I'm glad we got to do it in person.

Veena Jetti: I know.

David Phelps: I don't always get to do that, so-

Veena Jetti: I know.

David Phelps: I'm glad we could make that happen. That's ENZO, E-N-Z-O Multifamily Company, you can Google Veena and the company. You can find out what you need to, or contact her through that website-

Veena Jetti: Yeah.

David Phelps: If you want to learn more about what they're investing in, in their very focused markets. It's been a real pleasure.

Veena Jetti: Likewise. Thanks for having me.

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