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IN RENTAL HOUSES?

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YOUR RENTAL INCOME

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MASTER INVESTORS — Ron & Travis Cadman, Investar USA

CANADIANS TEACHING AMERICANS

BY SUSAN THOMAS SPRINGER

At an age when many teenage boys are working minimum wage jobs to save up for a car, Travis Cadman bought his first house. It was a successful deal — a \$40,000 purchase sold five years later for \$96,000 — that started a successful career.

“I was able to scrape together the down payment that I needed and obtain a mortgage,” says Travis, a principal — along with brother Ron — in Investar USA. “I was surprised at that time, even early on, how much real estate I could control with a little money down.”

Soon after, the brothers bought their first rental property together. And from those beginnings, the brothers went on to run successful real estate businesses including managing rentals, doing construction, developing lots and offering turnkey invest-

ment opportunities to others. They’ve invested in single- and multifamily properties, worked through up and down economic cycles and learned the ins and outs of both the Canadian and U.S. markets. Going strong almost 30 years later, the brothers say their partnership has prospered thanks to their being flexible, taking risks and learning both from industry experts and “the school of hard knocks.”

“It’s the evolution of ‘one house turns into two houses, turns into three houses.’ And we’ve always been hard workers, and real estate excites us a lot, so we’ve always been willing to put in the time it takes to make things happen,” says Ron.

The brothers grew up in Alberta, Canada, with a father who owned a real estate investment company. Their father and business partners had winter homes in Phoenix, Ariz., where they had the opportunity to be mentored and see firsthand how cash flow

and long-term wealth can be created through real estate appreciation.

“It always seemed like the real estate guys were having fun and had a lifestyle that was appealing,” says Ron.

The Cadman brothers bought and sold homes in Phoenix for a few years and then returned to Canada and started a homebuilding company that eventually built more than 2,000 single-family homes. Construction was a natural evolution for the then-20-something brothers.

“In real estate, you’re always looking for inventory, and one of the solutions that we came up with was creating our own inventory by building single-family homes,” says Ron. “So that entailed buying lots, forming a company that secured lots and hiring employees.”

They enjoyed the creative side of designing houses. But one building experience that wasn’t so fun was a condo project they started in a rapidly



Travis, left, and Ron Cadman



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Guiding Principles —

Travis: “Trust your instincts. Focus on your customers, not your critics.”

Ron: “Be dedicated. The pain of discipline is the price of your success.”

What Makes Me Get Up Every Morning —

Travis: “You only live once, and I don’t want to waste a minute of it.”

Ron: “Each day brings new challenges to overcome.”

When I’m Not Working ...

Travis: “I don’t think of work as work and play as play; it’s all living.”

Ron: “I enjoy golf, hockey and family time.”

Technology I Can’t Live Without —

Travis: “My iPad.”

Ron: “My iPad and the Internet.”

Best Advice I Ever Received —

Travis: “Ninety percent of success is just showing up.”

On Competition —

Ron: “Open yourself to new ideas, experiences and people who can teach you something new.”

Favorite Quote —

Travis: “Success in business requires training and discipline and hard work. But if you’re not frightened by these things, the opportunities are just as great today as they ever were.” — David Rockefeller

Ron: “Business is more exciting than any game.” — Lord Beaverbrook

escalating market only to find the market peaked and plummeted before construction was finished.

“It was amazing how quickly the market turned off. It was red-hot and then just cooled right off. The buyers rapidly went away,” says Ron, who adds they hung on and completed construction.

“We didn’t make any money. We got the bank out, and that was probably the best we did,” adds Travis.

THAT EXPERIENCE INGRAINED TWO LESSONS.

First: “Watch how much leverage you put on your project. And the second one is, make sure you’re aware of your market cycles,” says Travis.

They also learned there’s less risk in selling lots than in building homes, so they moved on to become a supplier of land to other builders.

“What we understood from that is a homebuilder is only as good as his lot base. The homebuilder is always dependent upon the developer because if there are no lots, you’ve got nothing to build houses on. So we always knew from the homebuilding side that the real strength was in lots,” says Ron.

Watchful of market conditions, the Cadman brothers saw another opportunity in the U.S. subprime mortgage crisis of 2008. Based on their experience in up-and-down markets, they decided the best option was buying homes in Arizona. The trick was in the timing.

“Our thought was the simplest thing to do would be to buy single-family homes and try to buy those houses in the bottom of the trough. But of course the reality is there’s no bell that goes off and says, ‘Ding, ding, ding! You’re at the bottom of the trough. Everybody buy now,’ ” says Ron.

Lacking a bell, they went to work. The Cadman brothers reviewed market conditions and brought in a team of a dozen people to identify the right properties to buy. With trustee auctions taking place daily in Arizona, each afternoon they were faced with another list of 300 to 400 properties to review. They narrowed the list down to desired ZIP codes, appraised those houses and had a team member drive by the houses and take photos so they could assess the value and condition of each potential purchase. They meshed that day’s list with their budget and set their maximum bid price.

“People are working basically to the wee hours of the morning, so by 9 o’clock you’re all set and ready to have your fellows at the auction on the courthouse steps and be ready to bid,” says Ron.

Because trustee auctions are a “cash game,” as part of the original business plan they needed to raise money for their daily purchases. So they put on their business suits and went shopping at Arizona’s banks. But they were shuffled out the door almost as soon as they sat down. One bank president told them, “Me giving you fellows money for this is like me adding onto my house when it’s on fire.” So they quickly learned that obtaining leverage from a traditional source wasn’t going to happen.

They revised their business plan based on two factors — defeat at the banks and interest from the average investor. Invest-

tors had expressed disappointment with the performance of mutual funds, stocks and bonds.

"We started hearing at increasing levels of people that were dissatisfied with the current performance of their investments and of course real estate — well-timed, well-selected real estate — is typically proven to be a fairly good investment," says Travis.

The new business plan called for funding the subprime project by selling shares through a private placement memorandum (PPM). That's a disclosure document that informs potential investors about the risks and benefits of buying the company's offerings.

They kept up that successful formula for three years until 2012, buying about 350 houses. Now they manage a stabilized portfolio that's cash flowing for them and their investors.

CURRENT FOCUS: INVESTAR

Today they are busy with Investar USA, a turnkey real estate investment firm they started about three years ago that caters mostly to Canadian clients.

"Now what we're doing is taking the same principles that we used on the single-family front and we're acquiring multifamily buildings in strategic markets starting in the greater Phoenix area. They're called 'value-add apartment complexes' that we feel we can transition from their current state to an improved state," says Travis.

They seek buildings that are "tired" on the outside, haven't been managed well and have rents lower than the market will allow. First they refresh the exterior and common areas, including places that need painting, the pool and parking areas. Next they improve the units when they become vacant with new flooring, upgraded cabinets and new lighting, sinks, appliances, faucets and hardware. Investar has closed on around 100 units, with another 400 under contract.

"So what we're able to do with all of the improvements we did to the exterior and the interior is increase the rent to the current market value for that quality of a unit," says Travis.

Investar has purchased 100 multifamily units that are going through that renovation process with 400 more units under contract. In addition, Investar's Arizona activity includes successfully renovating and selling 350 single-family homes that total \$35 million in assets.

GROUND-UP EXPERIENCE HELPS

The brothers say it's an advantage in their current business that they have experience building multifamily from the ground up. So they can analyze multifamily with a full understanding of what it takes from start to finish.

Through all of their business ventures and through the ups and a few downs, their partnership has worked

without any "rifts or shouting matches" because they have different strengths, yet a shared work ethic.

"We've always had a goal we're trying to achieve, and our minds have always been focused on how to achieve that goal together," says Ron. One key to success is that they were always "starved for knowledge" and sought to learn through relationships, books, seminars and organizations.

BIG ON EDUCATION

"I think that's one big thing for us — we were always big on trying to educate ourselves and learn more so we could do more," says Travis.

Looking back, they also realize there were some risks they took because of their youth.

"When you're that young in business, you're dumb enough to think you're smart," says Ron. "Those early lessons where you get hurt, that's a lesson that you don't forget. Those lessons are ones that teach you that you're not that smart and you need to be more aware of the global economy and world economy and all of those things that will impact your business."

The other key is people. The brothers agree success requires surrounding yourself with a top-quality people.

"We've developed a team around us that we work with day in and day out that's really been a big part of who we are and what we do," says Ron. ▲

INSURING RENTAL INCOME



One of the attractive differences in buying rental real estate is the fact the rent can be insured against interruption. (Yes, you heard that right.)

It is now possible to insure the capital value of the investment (insuring the real estate) and insure the income from renting out the investment. This is the equivalent of insuring the investment and the dividend, but it would appear to be limited to rental properties.

AON Rent Protect is available nationally, and Insurent (New York) is available in major cities targeted at major luxury apartment building operators.

This makes providing and owning rental properties even more secure.

You can directly own the property as an asset with title recorded and secured with title insurance.

You can insure the building against loss.

And now: You can insure the income stream for a very reasonable fee of less than 10 percent of the annual income.

AON Rent Protect
www.aonrentprotect.com

Insurent Lease Guaranty
www.insurent.com