

URBAN
DEVELOPER
SECRETS
WHAT YOU
NEED TO KNOW



BY

DARYL
ANDERSON

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Publisher's Note:

We are in a unique and powerful time as it relates to urban development. The influx of growth in major U.S. cities coupled with low cost properties has created a tremendous opportunity for real estate entrepreneurs. In an effort to get this information in your hands as quickly as possible, we have transcribed a recent interview with Daryl Anderson of Mustard Seed Development, LLC that shares some of the incredible opportunities available to you.

About The Company

My name is Dan Samms, and I am here with Daryl Anderson of Mustard Seed Development. I wanted to take a little bit of time to hear a little bit about how Daryl's urban development company influences so many other things in the community and the value that it has, and how it can affect you. Daryl, can you explain to us a little bit about what you do?

Yeah. Like Dan said, we're Mustard Seed Development. What we do is we buy and renovate property in the inner city on the west side of Cleveland. After we buy, we update every single mechanical, the electrical, HVAC, plumbing, sewer lines, we put in new windows, we paint the whole interior, we put a new floor in, put ceramic in the kitchen and bathrooms. We basically take an old house and make it new. And we also paint the exterior. If it's sided, we'll fix siding. But that's what we do with the renovation side. The more important side is that we also hire newcomers to the United States, whether that's immigrants or refugees, and we'll train them on construction skills with the idea that if they want to they can continue on and start their own businesses in the future. After about a year with each guy and train them on the basics of carpentry and the mechanicals, then we'll ask them, "Okay. You've been here a year. You've gotten the basics out of the way. You've learned some things. What do you want to specialize in?" And after they've maybe thought about it and decided I want to go this direction, then we'll give them more intensive training and really begin to focus on one area, so that if they want to, they can become the specialist in that area, and hopefully, at the end of the day, they can also either start their own company and do that work for themselves, or they can begin to work for us in that capacity and train young men and women as well.

The Beginning

This is great. How did you get into doing this? This is a unique thing. What got you started?

Well, I've always thought about ways to make money and how I could increase what I have and grow, so in 2007, I moved to Ohio from California, and when I was about to get married-- after I moved from California, I bought two rental properties - actually one property I lived in, one I rented out - and I did some light construction work on the second property. I also worked for a guy for a couple summers who did painting and some light construction stuff. I got a little of the basics. But then, in 2009, when I was getting married, my wife's cousin worked for a community development corporation and we were telling him that we wanted to move into one of the trendy areas in Cleveland and get an apartment there as we started our life together. He said, "Hey, I have another

option for you." I was like, "Oh, what's that?" And he's like, "Why don't you buy a house?" I'm like, "Dude, I'm still in school. I don't have a job. My wife is just graduating school and getting a job as a nurse, so we don't have a lot." And he's like, "Well, hey, there's a program that the city of Cleveland has that you can get a house for just fees." So we bought a five-bedroom house with a mother-in-law suite for about \$385, I think. And we needed to renovate it, so we renovated it. We probably put \$15,000 into the house. But I paid for all the mechanicals to be done. It took us probably two months to renovate it. After we had finished the renovation, I kept thinking, "Wow. If I can keep buying at this price, I can make money."

I had just graduated from undergrad with a degree in Business and French, so I was really looking for an opportunity to go do business. So I made a connection with another guy from a community development corporation who is selling houses in the near west side of Cleveland where I now lived and he started selling me houses for about 5,000. The old program through the city of Cleveland that shut down so there was the opportunity to buy for just a couple of hundred dollars, but the price increase to 5,000 wasn't huge. I actually talked to my father, and I talked him into being the first investor. He bought the house and basically paid us to learn how to do this stuff. We renovated a two-family house. It was probably one of the hardest construction things I've ever done because I walked into the house and I'm like, "Where do I start?" My younger brother, he had a bit of experience working for a construction company. So we walked into the house at first, and he's like, "All right, I'll do everything on the first floor and second floor. You do everything in the basement." I said, "Okay. That seems pretty fair." So I walked down to the basement and I was like, "Oh, my gosh. What do I do?" I had no idea how to install a furnace, what pipe, do electrical work, or really anything. I was pretty overwhelmed. I knew a couple of guys who had been construction for a long time so I just started making phone calls like a madman. I had a couple of guys come out and visit me at the project and they help me through a couple of things, but basically, I stumbled through the process. I go back to that house occasionally now and I'm like, "Wow. The people who did this project did a terrible job." But we learn through it. We learn through the process. That's kind of how I got started, and we've just grown from there. That was probably in 2012. Yeah, about 2012.

Company Success

What kind of successful measures have you seen in these last-- it's been several years now. What would you mark as successful moments with your company when you say, "Wow. We did something good," or, "We really made money." What do you really like? What can you say, "This was success. Here's how it happened"?

I think the success that we look at is more measurable and long term, I think, is when you have a guy and you took him from zero to his own business. We have one guy who-- he was an asylum seeker from the Democratic Republic of Congo. I met him and we hired him on. He worked for us for about three or four years, and then he quickly grew in his skills past what I had known about electrical and installing electrical systems. Now, he started his own company and working towards his licence. That's one measure of success. I think another measure of success is we had one of the neighborhoods in the near west side of Cleveland. It's probably a C or D neighborhood, which is a measure of quality, I guess you could say. We have a very strong relationship with the community development corporation in that neighborhood and they basically transferred to us for the amount of water bills which ended up being like \$35,000, but they transferred eight or nine units to us on one street. It was on one block. We renovated all these houses, and now we have mostly Swahili speakers on this street. That's definitely another measure of success. It went from being a drug-infested, no people paying rent, a lot of crime, to being a relatively quiet street in about a year.

How to Get Involved

That's amazing. That is, by the way, a rarity. To be able to turn around an entire neighborhood over the course of a year is pretty unheard of. One of the groups of people I would imagine you would want to talk to is community development organizations that would have a very strong interest in having you, or someone like you, do something like that. I would also imagine that there are investors that would say, "I would love to invest money. I can see the payout for this if we're renting out these places and they're making money on that." I can also see great value in somebody just like you that would say, "Man, there are refugees in my city. There are people immigrating to my city. In fact, there's even suburban people moving into the city that I can see great potential in." What are the different types of ways someone could get involved with you or with starting a business like yours?

Well, I think the easiest way is the passive investor. So you invest X amount into one of the houses that we've renovated, and you're in effect helping someone start their life here by renting a house to a newcomer who's just arrived. You're giving them a quality house where they can start their life from a firm foundation. We've gone into some houses where there's water leaking from the roof, or the family doesn't have hot water, or the toilet's not working, the bathtub's broken, and the owner doesn't want to fix it. So you can imagine these people are coming here, they're trying to start a new life, and there's all these issues at their house, which to me would be very stressful. That's one thing that could

be provided as a passive investor. Another way that someone can come and help or come and participate?

Sure.

Participate is that there are many houses in Cleveland. You can come and work side-by-side with Mustard Seed Development and basically piggyback on what we've already done. As of almost October of 2016, we probably have 25 houses in the southwest quadrant of Detroit Shoreway neighborhood in Cleveland, so we've already got a firm foundation from where we're starting. So someone can easily come and partner with us in that.

The third thing is that this really can be started in many areas around the country, as I'm sure that Cleveland is not the only place where there's neighborhoods that are not as wealthy, or maybe they have more crime, or they have more problems, or that's where the rents are cheaper. So in those areas, typically, the housing prices are lower, so someone like me could come in and buy up properties or more properties in this area than in other areas. So someone could fairly easily, I would imagine, start this same kind of business in their own city. And from our experience, the people that work in the city, the community development corporations or the semi-government entities, really support that and love that because you're really working for the good of the city and it's really in everyone's best interest.

Investors

Wonderful. Let's say I'm interested in getting involved as an investor. What do I need to know? How do I get involved as an investor?

Well, you would reach out to us and contact us and talk about your level of interest, and we would begin discussions about what you're looking for, whether it's a two-family, single family, or more. And then we could talk about price range, like what's your price range? Single families range anywhere from-- for very small single families, maybe 25,000, to five or six bedrooms maybe at 50,000. So there's a lot in between there. We always give an estimate or we give a price of a finished house, but if an investor really wants, they can look at a house that we have not finished yet. We can send an estimate of costs that we think the price of the house will end up being. So they could do it that way.

So then how do I make money as an investor? Through the rental?

Yes. Good question. Generally, we have a return on investment of between 15-18% from our rentals, and like I said, we rent out to, not all, but mostly newcomers, so refugees and immigrant again. And we found that with newcomers that we never had to evict in four of five years of doing this, six years, something like that. We really keep turnover low and costs down by, one, not evicting, but also, two, we treat these people well, so they've turned and they've called their friends who are living across in different areas of the country or in different cities or even in the sea. [?] they come over here, like we've got a good guy here. He takes care of us. If there's ever any problem, we try to be there within a day or max two, so we can get there and, one, take care of the investment, but, two, also take care of the family because referrals are the cheapest leads you can ever get, so it's only good for the investment in the neighborhood.

It sounds like you continue to manage the property then, for the investor, usually.

Yes. If the investor wants, we continue managing the property.

Wonderful. And then that investor regularly is making 15-18% every year?

Yes. As we collect the rent, we take out a management fee of 10% and then send all of that to whatever account that the investor wants. We also send, every month, along with rent collected, a statement of the account like one we deducted, if there were any costs incurred for fixing the property, or the management fee. And so that investor will see that all outlined in an email for them of what's happening and also, like Dan said, and I said it earlier, that the investor usually receives 15-18% return on investment year after year.

I can imagine, if I have invested \$30,000, \$45,000 in a property and then somebody's paying me a monthly rent of five to seven 5-750 or whatever, so over the course of-- depending on I'm sure a lot of factors, but over the course of six to eight years it's paid off. So then after that am I just making straight profit?

Yeah. Yeah, that's really the idea that in, usually it's about six years or a little less, that the house should be able to be paid off, or you've basically recouped your investment and now you either, one, you have money to reinvest, or you have money to go a different direction, and you still have this asset that's producing X amount of money per month.

So as we're hearing, if you're managing the property, and it's your relationships and your steadiness and integrity that they're essentially leveraging so then they can expect the same

type of renters who are going to continue to stay to have almost no evictions over the last five years is incredible, especially in a what was once a low-income urban environment that is really coming up. That's pretty incredible. And then on top of it, so we have a safe bet giving 15-18% but then turns into an almost a straight profit after six to eight years. It's pretty incredible.

Yeah. Well, we try to reduce risks for ourselves and for investors as much as possible. Again, it goes back to it's better for the neighborhood to have stability. We're helping some newcomers to buy, so they become anchors in the neighborhood. The ones that are relatively newer will be the renters, but we want to transition some of those to also be owners. There's an opportunity for investors also to turn and sell their house to the tenant, if the tenant wants.

Do It Yourself

That's wonderful. Here's my next question, then. I see how I can become involved as an investor, and it sounds like a pretty great investment. It's steady, a short-term payout is good, a long-term payout is great. Now, I'm thinking of, how can I get involved if I'm interested as somebody that wants to start this kind of business? It sounds like you're pretty free with the fact that there's a lot of cities that could benefit with this. Tell me, what key aspects of your business are essential for somebody who wants to start a business like yours?

I think you could ask many people, and starting a business is not easy, but one of the things that we offer is consulting services. We are willing to help other businesses to get off the ground. I think some of the things that have been the most challenging are, one, establishing relationships with refugee organizations. Before our relationship was established, we would have a hard time. If we finished a new house, maybe it would be sitting there for two months. There's an opportunity cost to the house just sitting there. But as our relationships became more and more solid with the refugee agencies in Cleveland, we haven't had that problem as much. In fact, we probably get-- and I go back to referrals too. We probably get four, five, six calls every month of, "Hey, Daryl, do you have a three-bedroom available? Do you have this available? Do you have that available?" Unfortunately, we're only producing maybe one new house a month, so we can't take in all of the opportunities that are coming. Another thing would be strong relationships. It's been very helpful to have strong relationships with the community development corporations. That has come about as they've learned our vision and as they've seen us continue in the neighborhood, and for the good of the neighborhood, and really supported what they're doing as well. Like I said, we're in maybe a D

neighborhood, so there's not a lot of other people investing here. When we're some of the only ones that are working this neighborhood, then they appreciate that and really supported us. I think the other challenging thing, especially when you first started, is not knowing the codes for mechanicals and what inspectors will look for. That was a challenging aspect of the housing side. Also, another challenge would be developing a training plan for new hires or taking them through something to make sure they grasp the basics. That was difficult and it's expensive. Minimizing that expense is something that every new organization needs to grasp that wants to hire people with no skill.

It sounds like we're starting a business like this, there's wonderful potential, but there's a lot of unknowns for somebody who's just jumping into it. As you're describing building relationships, some of the key partnerships you have with the community was a key part of it. Understanding building codes and making sure everything was done up to par, and even a training plan, it sounds like there was a lot of things because you're pioneering this concept. So it's like there was a lot of hurdles early on that you had to overcome that, I would imagine, if you'd had the information you have now would have probably saved you thousands of dollars.

Yeah, and time. Time, too. We'd have been much further along now if I would have known what I know now when we started, or if I would have had the systems in place that we have now back when we started. But I didn't know what I didn't know, and so that was a big problem. I asked a lot of questions and I was very humble. I would go to everyone and be like, "Please. I don't know how to do this." But if you don't know you don't know something, then its--

Don't even know to ask.

Yeah, you don't know to ask and so you can never get that answer. And it's only when I would stumble upon a big problem and be like, "Wow. How do I figure this out?" And that's only being the process of, "Oh, man. We need to put this system in place where these guys aren't sitting around and waiting for drywall to get delivered, where I'm paying them, or they don't know where to go because the foreman didn't communicate that they needed to be at this area the next day," or things like that where I didn't know that there needed to be systems like that in place. I thought we could always just communicate. Another one would be how to catalog hours, or the necessity of having a bookkeeper and an accountant. All these kinds of things that-- I'm a shoot from the hip guy, and so when I started, I just figured I'm going to keep shooting from the hip and it's worked out up tomorrow, why wouldn't it keep working in the future? But things just get complicated real quick. Like I said, there's a lot of challenges to starting up a business.

Training and Consulting

So it sounds like if I was going to start an urban development business when I was going to jump in and really have an opportunity to make hundreds of thousands, million of dollars, it sure would help if I had someone who had been through this before me who knew how to do this, who had pioneered this process ahead of time. I don't know of anyone else in the United states doing something like this, so if I wanted to hire you to consult with me, or to train me, or to be on call, are you available for that type of stuff?

Yes, we are available for those kind of things. We want to see the inner cities in the United States really come back to what they were meant to be - centers of culture and family life. We'd love to help and partner with people as we see, or to see that happen.

What type of organizations and people can you see benefiting from some of your training and consulting? Is this something that would be valuable for a community development organization that would like to learn a little bit more about starting something like what you're doing?

Yeah, I think it would be valuable for a community development organization that's potentially just getting started and trying to figure out a direction to go, or how to do it, or what to do. I think it would also be valuable for maybe people just coming out of college, like me, who didn't necessarily want to work for the man but wanted to do business and make money. Another group of people that it would be helpful for would probably be veterans who have a lot of skills, and potentially the get up and go attitude, and are self-starters. Or maybe even someone later in life who wants a new career and really wants to help people. I think our business has been great in that you can make money and help people at the same time. It appeals to a wide variety of people.

I'm thinking about all these opportunities and different ways to get involved for this amazing community development organization that wants to do some type of focus area, or multiple areas, that they lift up. I can see a for-profit arm of a non-profit as you're describing vets and people just coming out of college. Wonderful opportunity here, and as I'm viewing this as an objective person who's learning a little bit more about this, it seems like this is solving a lot of problems. There's urban housing crisis that's being handled here. There's a neighborhood safety and improvement issue that's being handled. Job opportunities for veterans. Housing

and job opportunities for refugees and immigrants. Economic benefits for a city. The list goes on. This is a pretty incredible thing. Do you know of anyone else in the world doing this right here, exactly like this?

While I'm sure that I'm not the only person doing this, I honestly have never met one. Now, I'm not traveling to different cities to try to find people who are doing this, but I've never met someone else in the near west side of Cleveland who is doing the same thing. Now, there's a lot of people who are out there renovating houses. There's less who are renting their houses to newcomers. But as far as renovating houses, training people, and renting to newcomers, I don't know any.

Is this a good time to get involved in a business like this? What makes this a really great time for it?

Well, I would say that there's a lot of opportunity, and I think, in cities all over the country, there's opportunity. What I tell every one of my guys when they come and they first start work, I say, "Look," since they are mostly newcomers, I say, "Look, you might have nothing right now but I'm going to teach you the skills to be able to invest in real estate and make money." That goes for me and also goes for someone who has nothing right now, that through real estate you don't need a lot to get going. But once you get one, you begin to gain momentum where you can turn that over and get more. So there's a lot of opportunity in real estate right now for someone who has money and someone who does not.

Contact Us

That's amazing. Last thing, because you've sold me. I want to be involved. How does a person get started? Let's say I want to be an investor or maybe I want to learn as a community development person or someone who wants to start a business on my own. What's the first step? How do I connect with you?

The first step would be to connect through our website. There's a contact page where you can click and submit your information and talk about what exactly you're looking for. That would be the first step. We offer a variety of services. Again, on our website, you'll see that, one, you can invest in housing, and then there's a number of consulting services that can also be purchased through the website.

What's that website?

The website is mustardseeddevelopment.com.

Thanks for your time, Daryl. This is great. Excited about what's happening in urban communities, excited about investment opportunities and opportunities to better whole communities and people's lives. This is exciting. Thanks for being with us.

Most everybody wants to make some money, which is fine. You know, everybody needs money to survive. But the best thing about this business is that you really profoundly get to affect people's lives, not only through our workers, but in our tenants, but also people around the city and in the neighborhoods that see you're really caring and you're really investing in the neighborhood and lifting the whole neighborhood up. Like I said, the greatest thing is that you're giving a serious social benefit but you're also making money at the same time, which makes me feel really good at night where I can sleep knowing that I've helped people out there. and I've really affected people's lives. You can do the same.

