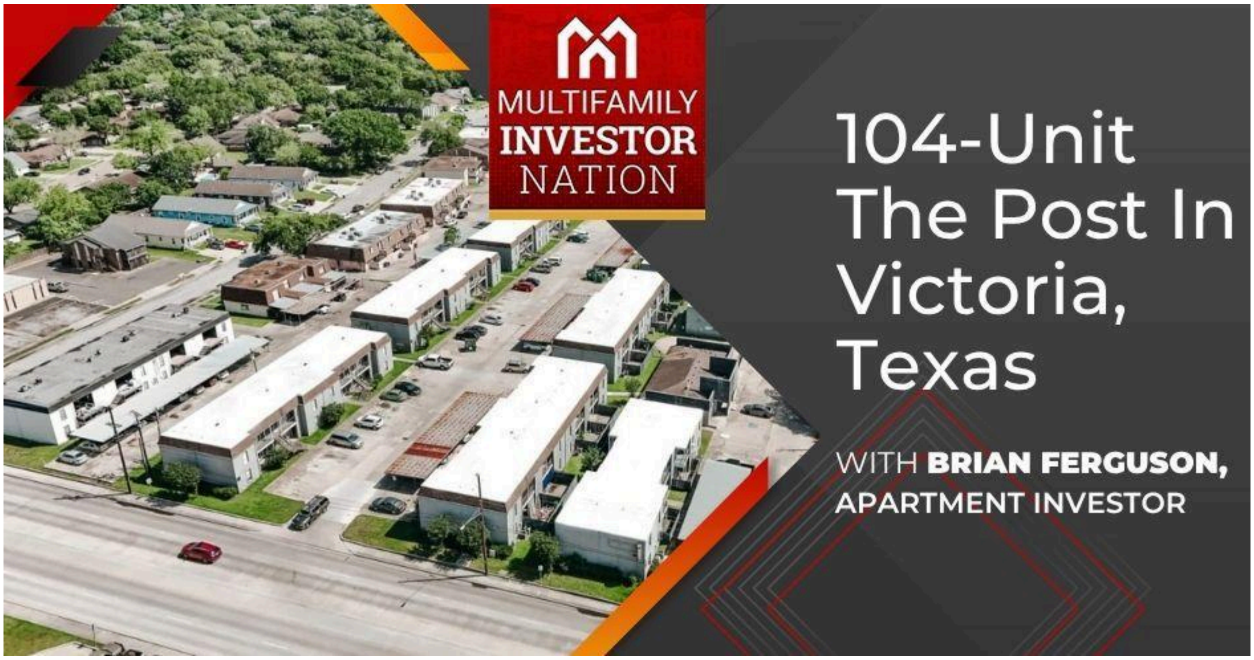

Whitney Elkins-Hutten of PassiveInvesting.com interviews experienced apartment investor Brian Ferguson of Fergmar Capital about his most challenging acquisition yet: The Post, a 104-unit multifamily real estate property in Victoria, TX. What do you do when a potential deal is facing foreclosure, has collapsing carports, undisclosed fire damage, and a lender breathing down your neck? Dive into this conversation as Brian reveals the intense due diligence process, the shocking physical surprises (like 20 down HVAC units and failing roofs), and how his team successfully navigated a complex Fannie Mae assumption loan with a low 4.41% fixed rate. Learn about their non-traditional 80-20 capital structure and the unique marketing challenges of managing an all-bills paid distressed asset. This is a masterclass in turning a nightmare multifamily deal into a cashflowing success.

Listen to the podcast here

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104-Unit The Post In Victoria, TX With Brian Ferguson, Apartment Investor

I'm excited to be joined by [Brian Ferguson]. Brian, welcome to the show.

Thanks for having me. Glad to be here.

Brian, before we dive into The Post, 104 units in Victoria, Texas, first tell us a little bit about your background, how you got into multifamily real estate, and where you're at now.

I've been in real estate many years. I started late '05. I started in single-family, started with some fix-and-flip and then that just organically going into the Great Recession there. I built up a single-family portfolio, started buying multifamily at the bottom in '08, 2009. That just organically grew over the years of selling, buying bigger, selling, buying bigger.

Fast forward to COVID timeframe, we had about 700 units going into COVID, plus some shopping centers, and I started passively investing during COVID, sitting at home. Thought that was the new path. 2021, I realized I wasn't being very passive, I was traveling more than I was before to go look at stuff I was passively invested in, and went back active in '22 and continued to grow the portfolio. We started taking on investors in '22, and we're currently buying multifamily and shopping centers in Texas.

We're going to be talking about The Post, one of those units here, 104 units, Victoria, Texas. When did you close on the property, and what was the purchase price?

We closed last day of August, 2025. Purchase price was $5.837 million is where it ended up at.

Now let's back up the timeline. When did you find this property, and how did you find it?

We went under contract or, I guess, started looking at it probably February, March of '25. A broker we had some previous relationships said it was one of his clients that he'd sold some stuff for before. It was off-market and he sent it over to us just knowing we were local to the area.

You're working with a broker. How did you get to the point where you felt comfortable putting an LOI on this property? Did you have any competition?

Strategy For Acquiring A Defaulted Loan

Yeah, so it's interesting, so we track expiring loans or default loans is where we've been looking heavily. We were tracking it for that purpose. Right at that same time, the broker had sent it to us, but it was up for foreclosure, so we knew that. We hadn't aggressively tracked it because we had already entered some other markets and we weren't really planning to add that many more units in this market because we had so many.

We threw an offer out there. They had it overpriced going in just with the deferred maintenance and everything going on with it. We threw a price out there, but at the same time we knew it was going to foreclosure and we knew what the foreclosure balance was. That's how we approached it and did some negotiating back and forth, but it was one of those like we're not upset if we don't get it because we're looking at some other stuff, but they needed to sell and they took the offer, so it was a good deal all the way around.

Tweet: We made an offer based on the foreclosure balance and the reality of deferred maintenance—not the asking price. We were negotiating from a position of discipline, not emotion. If it didn't work, we had other deals. But they needed to sell, and they accepted.

Did you have any competition?

I think there were a few other ones. This was an assumption loan, so our history with having agency debt and being able to close and already having the capital pretty much ready to go, I think is what got us to the finish line because they weren't in a position to where they could go under contract and it not work out. I know there were a few other offers, and I don't remember if we were higher or lower, but we were 100% able we own assets all around it. They knew we would take it to the finish line and get it closed.

They were banking and you were banking on your track record that won you the deal. Let's start talking about the due diligence. When did you walk this property? Did you walk every single unit? Before that, how did you structure the contract?

We had your standard what we normally do is we'll have a 45 or 60 feasibility with another 45 or 60 contract. We almost always have an option for additional earnest money to extend the closing date if it's for our part there. Again, this one was a little different because for the foreclosure to be stopped, they had to have a contract. It just gave us some leverage there because we knew that and then again, we could always go buy it at the auction block but you don't get to assume the low-interest loan. We are very heavy on feasibility timeframe, though, so we always negotiate. Brokers always want 30, we always want 90, and then we end up somewhere in between.

Now we're to the point where we're actually conducting our due diligence. What did that look like? How did you structure it and did you walk every single unit?

Yeah, so what we do when we get something, sometimes the LOI will go before the initial walk. Most of the time we have some type of initial walk, just 1 or 2 people from our team. It's our head of acquisitions and our director of asset management are normally the two that will go. Sometimes director of construction will go on the initial walk if we think it's questionable like 80% vacated with down units or something like that.

We do that and then either before or after we get our LOI, it depends, and then we'll go and then once we're under feasibility, then we do a full due diligence day or days. I think this was a 2 or 3-day and that consists of an acquisition team with acquisition associates, all your different professionals. We'll have a roofer, HVAC, plumber we snake all the lines we have the foundations looked at by we bring all the licensed contractors and subs.

Our team does drone footage, exterior walks, and then they walk every single unit, all common areas, all amenity areas and the leasing office. We take pictures and we put all the files together. Our leasing team will be present. If it's third-party leasing based on the market, then we have that third-party leasing company there for due diligence as well.

Sometimes that will mean file audit on that day, sometimes especially on these deals that are a little bit of trouble, the chance that they're going to like digitally and electronically get you every single lease that you need to audit doesn't happen. It's nice to start going through it that day. If it allows, we'll have a team in office doing lease audit while everyone else is doing unit audits.

Physical Due Diligence Surprises And Retrading

Let's break this up into the financial due diligence and then also the physical due diligence. We'll start with the physical piece. Any surprises?

Yeah, absolutely. There always are. I've never seen one that didn't, but you well day of surprises, I guess. The way we operate is when we look at a deal, I take what we could have seen from an initial walk and what we can see from the OM, if the broker gives you an OM or whatever information they provided and that's how we underwrite the deal. For instance, if you told me it had new roofs, then I underwrite no money for roofs, something along those lines.

Tweet: When we look at a deal, I compare what we could see from an initial walk-through with the information in the OM—if the broker provides one—or any other materials they've shared, and we underwrite the deal from there.

This particular one, it had newer roofs that were not done right. Therefore, that was a surprise. This one had some units. There's one that had a fire and had not been reported. Even the property manager didn't know there had been a fire in it. Some units with mildew and mold. Out of 104 units, I think we ended up having to change 20 HVAC units after we took over, so I think that's what we found about 20 down units, some of these in excess of 6 months with window units in them. There was a lot of surprises and that's the day of.

There's definitely going to be discrepancies on what units that are vacant and shouldn't be, but that comes later in the process. That day of there was a lot of the roof surprises, HVAC, just units that were much worse shape because the property had been delivered like, "We've turned almost all the units. It just needs some exterior work, the exterior was pretty rough, get the exterior done, all the interiors and you're good to go." That wasn't the case.

What vintage of property is this? What's the build year?

'78.

Okay, so we're looking at a class C property. A little bit like you said, deferred maintenance and you know no surprise that there were surprises.

Yeah, no not at all.

Did this materially change your construction budget and did you retrade on this property?

Maybe not that day, but yes we retraded, and our retrade's similar, what I said earlier. I try to be extremely fair in that. I'm not going to go offer $6 million on a deal that only works at $5 million. If it doesn't work, it doesn't work, but our assumptions and underwriting are based on the data that have been given to us. Finding a unit that had been burned that needs say a $15,000 rehab or needing $150,000 in roof repairs, that was not disclosed to us or they had said like it had some old Federal Pacific breakers that had all been changed supposedly.

They hadn't, there was like eight of those. There was a handful of things like this that we did have to go back and retrade or ask for a repair credit for. If the pool is just in shambles, I'm never going to go back and retrade and ask for a $50,000 pool allowance. I saw that, my team saw that, we were made aware. If it's something I wouldn't know, we will retrade for it. We didn't climb on the roof on subject to submitting an LOI.

Let's transition to the financial part of the due diligence. How'd that go?

That on this particular deal wasn't as terrible outside of them having some. There was a handful units. That's almost every time. They say X units are leased and when you do the walk. We cross-reference the financial audit with the physical audit saying 102 showed to be leased, 102, was there people living there? My team does a pretty good job, too, about walking in and saying, "Whitney, nice to meet you," and if they go, "Who's Whitney?" okay, just make a note, move on to the next unit. We get in the weeds about that and that's just from being burned in the past and overly trusting things.

The financial wasn't terrible. I mentioned foreclosure, this was not foreclosure due to lack of payments. They were current and they were cashflowing. Foreclosure was because they had failed to comply with the semi-annual or was a quarterly inspection from Fannie Mae and they ignored the request. Per a Fannie Mae loan agreement, you have to maintain they'll give you a PCA report, and they'll have requests that have to be made when you take over, but then that continues as you as long as you hold that loan.

It happens to us all the time. The sidewalk has more than an X inch of a gap and you have 30 days to repair it. You just suck it up and do it. They don't like where the tree limbs are, you cut the tree limbs. It's not worth the fight. I think through COVID and that, they had gotten lenient and then he just quit responding to them and they said, "Okay, enough's enough," and they were foreclosing because of the deferred maintenance. It's been cashflowing since the day we closed on it. Just needed a lot of repairs.

I have several deals in my portfolio and that I think that's something that investors, especially if you're a limited partner reading this, is you don't just get the loan and you're done until you want to exit the property. You have to pay attention to loan covenants, all the different guidelines that you have to play ball with and the lender stays in full control. They are the senior debt partner on this deal.

They make sure that that property is going to stay to their liking, for sure. Let's talk about the lending, because not only was this a foreclosure and it sounded like the purchase sale agreement by getting that signed, sealed and delivered actually maybe put a stay in the foreclosure process. Didn't eliminate it for the seller, but you're also assuming the loan. What were the assumption terms here and what is your forward-looking plan?

They had held it for six years or so. Closing took a little longer, and it was on a 10-year fixed, it was a 4.41% Fannie Mae assumption. By time it was all said and done and we assumed it, it was about 80% LTV of purchase price to that. We had our CapEx come into it. It was a pretty good assumption. We actually thought they may cut that back as we got to closing, because they'll normally want the original LTV. I think in this case, we have lots of very well-performing loans with them and they'd rather have us in the borrower's seat than the one they had.

We assume that had four years left. This one we actually did a ten-year hold. It’s not our normal but it was just simply because it's a pretty good cashflow position. It was more of a cashflow play. We'll hold it. As we get into the last year, the prepay is pretty minimal, so it'll give us about a full-year window to refi it. That's what we'll refi it into another agency deal for another probably another 10 and then hold it another 6 of those years and then take it to market.

In this loan assumption process, was it smooth?

I don't know that any agency debt deal is the smoothest. They ask for a lot of things. I wouldn't say they're not smooth. They just they're timely, it seems. This one was a little bit more just because there were some difficulties based on it because it was sitting in that default status and us getting it out. They were pretty stringent on the things that they'd been asking to get repaired. They did another inspection and added to that list. It took a lot of work.

I wouldn't say it wasn't smooth, but it was very time-consuming and even since then just because they had that repair and they want to make sure everything's getting done with a certain timeline. It wasn't terrible. Now with the new rules of everything having to come direct from borrower, so we normally use as a broker just to help facilitate everything. To me, it's another arm of your team. I don't look at it as like a fee, because they facilitate so much. With this agency, especially on an assumption, they can't do very much for us so it's a little bit heavy lifting on our side, but wasn't terrible.

Unique Capital Stack And LP Structure

Now you raised capital for this deal and you said you got to 80% LTV. Help me understand how you structured the deal with a loan assumption. It sounded like the seller was already six years into servicing this loan. Tell us how the capital stack was assembled here and how you worked with your limited partners.

Sure. It was an interest-only for the most part, so he had just gone into principal paydown, so that's why his principal balance hadn't moved a whole bunch. We assumed his and then we had obviously the difference there call it $1 million, $1.2 million and then we had about another $1 million we needed in capital expenditures that actually increased. That's where some of the credits came in, closing cost etc. It was like a $2.7 million was the capital need.

We normally will fund that 15%, 20% range of that, sometimes much larger, sometimes a little bit less. The rest, it was a 506(c) structure. I think it was a $50,000 minimum for our first 506(c). As I mentioned, we hadn't been doing the capital raise for a long time there. $50,000 minimum, I think our average check ended up being around $250,000, $300,000, which is standard in a lot of our deals. I don't remember off the top of my head exactly how many we have in it, but that was the extent there. I think it was probably about a 45-day raise, something along those lines.

Did you structure this for your limited partner with like a preferred return, back end splits, any IRR hurdles?

No, I don't overly complicate this. I don't see the point in asset management and preferred returns. I think they wipe each other out. I can do the math to show it, but it's not very traditional. All of our deals now do have preferred returns in them but I did this one no preferred return. I took the asset management, took all the fee base out of it and just did a pure 80-20 split.

Tweet: I don’t see the point in asset management fees and preferred returns. I think they effectively cancel each other out.

From day one, 80-20 split, always 80-20, no other nothing involved in it. It was unique in that aspect. It's working. We just finished Q2. We've been meeting and exceeding distributions since. I'm not saying it works for every deal. It worked on this deal because it's unique that you had a distressed deal that was in a good cashflow position.

You did already mention that you're already in Q2 of owning this deal. How has it gone since takeover?

We are probably a few months out I'd say one of the hurdles was management takeover wasn't bad. It actually the surprisingly the tenant base and everything we expected to be worse, but it was a pretty good we thought we were going to have to do quite a bit of evictions. We've had to do some, but it hasn't been terrible. We inherited some of their contractors.

When we got to the end, it was, "Here's all the things that the lender required. We got this report, this lender wanted these things done, here's the things we didn't know about," and we just went back and forth on this list and they're like, "We'll give you a credit for these things but then we already have these things being taken care of." Okay, all right, so get them done by closing. Didn't happen by closing.

We then go to the vendor and the vendor says, or the contractor, "Here's what's owed." in hindsight, we should have just said, "No, we want credit, take your people off of the job," but they were halfway into it. That's hard when that happens. Hindsight, we wouldn't have done it but we said, "Okay, just give us this credit and we'll take on your contractor." That has been a rough road. We wouldn't do that again but and we've now had to bring in our own contractors, which we should have done from the beginning. We were trying to give them benefit of the doubt.

That's made it a little rough, slowed down things. Backing up and tell this piece, one of the things that got these guys in trouble, there had been a little snow here a few years back. We don't get snow, but the carports were in such bad shape that little bit of snow collapsed the carport on sixteen resident cars. That's where this snowballed. Investors found out, so not only was he up against a foreclosure, he had investors forcing the sell because he had raised capital.

One of the things we had to do was remove all the carports. We needed to take them down and then all the staircases were just as rotted, they needed to be rebuilt. This guy's halfway building them. Imagine if you live in the second story of one of these units and these temporary staircases and that was just a nightmare. We're on the other side of it now. There was just things like when they bought it in '19, they put this brand new fitness center with equipment in there. It had never been opened. It's 2025. Six years, never been opened. We have to fix that.

The sign had never had power and we figure out that they had tried to tie it into someone's unit and all the things you uncover. It's a 1978 asset. I will say the leasing hasn't been bad. The construction side's been a little rough just from all the things we inherited and uncovered. We couldn't do it exactly in the route we wanted. We're having to do this on bank timelines. There are certain things like, "We want this done in 30 days." Didn't really make sense to do that in the first 30 days, it would have made sense we're working backwards, but again, you comply. That was the agreement we made.

That's been a little bit of rough, but we're on the downhill slope now. A little bit of exterior like we've already got the pool refinished. I was just on a call right before this. It was our weekly onboarding call for this asset. We're working on some landscaping, some paint touches, and then some unit turns and we'll be done. We're sitting in the 80% pre-leased, a little higher than that, so I think in the next 45, 60 days we'll be back up into the 90% and consider it stabilized.

Congratulations. Thinking in terms of like a first-time operator, if they had this deal in front of them, they were dealing with somebody a deal that was in foreclosure, obsolescence and deferred maintenance what's the biggest landmine they might miss?

I don't know if I'd recommend this deal for someone if it's your first time, but in saying that, probably a handful. Plumbing lines were an issue here. I don't think a lot of people do full snaking of all the lines on assets. You spend money doing that, and we've done it and then walked on deals, so you can spend $5,000, $10,000 but it's better than the alternative.

It's an all-bills paid complex, which is unique even for our portfolio. It had been that way for many things, but they had converted the electrical, but one thing it had was with the water heaters, the way the water heaters were set up and it was actually a learning curve for us. We've never had these before, but if we wouldn't have caught some of that in the beginning of the plumbing lines, we've had a ton of plumbing issues have been a big deal here. We're getting through them now but we had to we had to tunnel underneath, but we were prepared for it, we had it in our budget.

Things like that could have been easily missed there. Navigating the lender required repairs and on their timeline, I don't even know if the lender would do it with someone that didn't have previous experience, but if it was, even us, we'd never had this specific, but we had enough experience to meet timelines for CapEx projects. There's so much deferred maintenance without experience that there probably would have been multiple landmines someone would have caught.

You catch it when the tenant request comes in for backed up and you realize that that same tenant has backed up plumbing four times, something along those lines. Part of our due diligence, I mentioned that earlier, so we pull work order histories because that is a not that everyone reports, don't get me wrong, so you still have to do everything else but adding that into it because sometimes you may have done something it looked fine, but then you realize the tenth work order in a twelve-month period for the same unit or building, there's a problem.

Navigating The All Bills Paid Complex

Thank you so much for sharing that. Something you said in there is that this is an all-bills paid unit. Do you have an intention to do RUBS on this property?

No, you can't. You don't. I guess in a sense like with RUBS bill-back, it's the same concept. If you take two property side-by-side, your RUBS, if you're doing that, you're getting the utility bill back anyway. This it's all included because it's all master-metered. They had it all inclusive in the rent. This is near the university. Texas A&M just came in here, so it is nice. If you think about it, so I'm a 620-credit score getting a one-bedroom apartment. It is nice that I don't have to come up with a deposit for the apartment and five other deposits for utilities.

I get my internet, my water, my gas, cable. Everything is one deposit. I put down my say $500 and I move in. It's actually worked well. However, you have to navigate the marketing on that. If you're advertising $1,199 and you're not making aware that that it really is $999 plus $200 or $275 Delta for the utilities, so you have to be very intentional on marketing and phone calls so people understand that.

You almost have to educate them where they're like, "That's too expensive." Well, actually it's cheaper than if you go buy the one next door because it's only $200 cheaper and I'm giving you $275 in value in utilities. It does take an extra step and in the beginning, we noticed that. We had to change our marketing up a little bit.

That's a great lesson learned, and thank you for sharing. Brian, as always, thank you so much. If readers want to connect with you and learn more, what's the best way to do so?

Our website FergmarCapital.com and then I'm Brian H. Ferguson, I'm extremely active on LinkedIn. LinkedIn is always a great place to find me.

Awesome. Again, thank you for joining us and we look forward to hearing about your future deals.

Important Links

- Brian Ferguson
- Brian Ferguson on LinkedIn
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