EPISODE 292

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Ivan Barratt. Thanks for being on the show again, Ivan.

[0:00:31.8] IB: Man, it is so fun to be back here, Whitney. Thank you again for having me back, I really enjoyed last time and looking forward to more conversations with you man.

[0:00:40.8] WS: Yeah, I'm always honored to have you on the show, just somebody at your level of experience and expertise, we're honored to have you here.

[0:00:45.8] IB: It's good to be here.

[0:00:48.0] WS: Listeners probably heard you on the show WS 166, that's been a little while back and I would encourage you all to go back and listen to that and learn a little more about Ivan but he's a multifamily unit owner and syndicator. He specializes in FHA and agency finance projects as raised since 2015, nearly 60 million dollars in equity, acquired over 2,500 units and grown asset management to be best in class vertically integrated, asset and property management firm. These companies manage well over 200 million dollars in assets.

Comprising nearly 3,500 units. Ivan, thanks again, you know, give the listener a little bit more about just what your focus is. Right now, jump right in to the big topic of structuring deals.

[0:01:29.1] IB: Sure, well, again, it's my pleasure to be here and biography updates by the end of next week, we'll be at about 65 million in equity raised that next five is the first five in our new fund and now it's some track record and some trust, we're moving forward to a multi-asset structure to help us raise more capital, go after bigger game so to speak and also provide another level of diversification to our investors.

I get to spend most of my time on the equity side of the capital stack these days which means, fancy term for raising capital and I get to spend a lot of the time above that, really focused on the big strategy, high level vision of our company which is a fully integrated, private equity and management firm all the way down to the leasing agent in the maintenance set on site and I have a lot of fun getting to really keep my head in the clouds so to speak and focus on what we want long term culture to look like, what kind of company do we want to be a part of and how we find that mountain top and how we get there, it's a lot of fun these days, that I get to have because I have a great team.

Basically gets to do most of the decision making these days and tell you what, Whitney, incredible to watch these leaders in our company articulate, evolve and become just really fantastic examples in their different departments, how they make decisions, how they manage others and where they're taken this company we call family.

[0:03:07.5] WS: Love it. I think in the previous episode, 166, we talked a little about your team and how you got to where you are and if not, we've got to do that, that's awesome, congratulations to you and your success and I know that's just from your leadership ability and hiring the right people and making it happen and you've accomplished a lot.

From your expertise, we'd love to dive into deal structure a little bit and maybe some things that are important about how we structure deals, how you've structured deals, some ways maybe you find that wouldn't work and why you know, for your company but maybe they would others.

Maybe get a start with just some things that about deal structure that we need to know when looking at deals.

[0:03:42.3] IB: Yeah, we can go the tack from how I structure deals with my investors, with other people inside the GP, inside the general partnership, the folks that are in charge of the asset, you know, there's a team inside that as well, we can take that route if that works for you. Whatever I could do to deliver some value to the audience.

[0:04:00.1] WS: Yeah, that sounds good, why don't you just break down a deal?

[0:04:02.4] IB: Yeah, a lot of syndicators out there I think these days are doing it the same way but we look at it like we're a private equity company and that's where I really first looked at this model was, what are the private equity companies doing out there? Whether it's a business or real estate.

We typically are going to look for a deal that will deliver a certain return threshold of the high degree confidence to the investor, right? For us, we pay a preferred return and that started at nine, it went to eight and the market's changed and we've gone after newer and nicer assets that we do have to pay more for but they have lower risk, the preferred return's gone down.

Again, that preferred return is what the investor makes before I start making any profit on the deal. Right now, we pay a preferred return of 7% and we're actually only looking for deals where we can be current on the pref. Meaning that, 60 days after we deploy capital left, we close on that asset, we want to be able to pay 7% annualized, divided by 12 on a monthly basis, we want to be able to send our investor's checks.

[0:05:11.8] WS: That's 60 days after close? You want to be ready then to be able to perform?

[0:05:16.4] IB: That's right, that's also new for us, you know? We've done quarterly, we've done semiannually for our HUD deals but we've seen a lot of demand and marketplace for monthly returns and we want to deliver that. In order to do that, we've got to find those deals that are what we call a coupon clipper. They've already got cash flow, we're getting to solve a few problems to increase income, add value but there's far fewer problems to solve than say a traditional value ad deal.

We're looking for that 7% plus whatever split is on that deal, 70, 75% to the passive investor. Looking for those two numbers to equal in IRR on a five to seven year hold of anywhere from 14 or better. Typically 17, 18% is a good spot for us. If it's a newer, nicer asset that we wouldn't mind holding longer, we'll look at the lower IRR, maybe a 15 or a 16% annualized return over the whole period and then we also look for that to match up with the return of capital.

Multiple of invested capital which a lot of investors want to see, right? Very simply put, if I'm talking to you as an investor, Whitney, I'm looking to do two and a half to three and a half times what you invest in the deal. Net back for you on a five, seven or maybe a 10 year hold, depending on that specific deal or how that fund is structured.

[0:06:39.0] WS: You want to double their money within possibly five years or I guess, give us the difference here.

[0:06:43.6] IB: Yeah, you're exactly right, if I got a hold of 10, I want to be able to triple it. Well, most of my investors want to know, when are they going to get their money back, right? I tell them all the same thing. "Listen, I'm going to try to target a five to seven year exit but I'm going to plan for a seven to 10 year hold in case we have to hold it longer."

We want to target a deal that we wouldn't mind owning for a longer period of time, right? We don't' want to have to sell if it's a buyer's market. If it's a bad time to sell real estate, we want to be buying more, not selling a perfectly good cash flowing income property.

[0:07:16.5] WS: Makes sense. I guess, back up a little bit and as far as when you're first getting a deal, what's telling you which way the structure a deal, you know, maybe we can go into like how you're going to split a deal. You're going to have your investor returns, you're going to have the perf that you know you're going to try to return investors, you know you want a cash flowing asset. How do I determine if I want a 70/30 split, 80/20?

I mean, I hear people doing 50/50 now or not even doing preferred returns and just doing a split. What are some ways that you're thinking through that when your team's underwriting deals and looking at that and deciding that?

[0:07:51.9] IB: Yeah, for us, it's more first finding out what our investors really desire to stage in the market and then finding deals to meet that desire, right? We're going to first look at what we're hoping to deliver say in our new fund, we're looking to accomplish a monthly income stream, capital appreciation on the back end, right? Because you've raised the value.

That's the types of deals we're looking for right now. But you're exactly right, there is so many different ways to skin that cat. I have stuff and developer friends, they take a lot more risk than I do and sometimes they get a much higher payoff as well and the deals typically don't payout anything for the first three years perhaps. On those projects, what they're usually structuring is like you mentioned earlier.

No preferred return and just a simple split and depending on that deal, they're doing a 50/50, 60/40, any of those combinations and then some of the more sophisticated outfits, and we debate this all the time, are allowing for hurdles, that's common term you hear in the business, is a hurdle, which means after I've delivered you, say a 12%, the split gets a little bit better for me and it might change again at 15, it might change again at 18 to where, if we really hit it out of the park, I get a bigger share of the profit above that, a straight split which is pretty handy when you've got more sophisticated investors.

We pretty much like to keep it simple and make it as clear and easy to read as possible for our investors. I think you asked me something else there, I might have lost.

[0:09:28.6] WS: Yeah, I was just thinking about your process and you know, when you're underwriting a deal when you see a deal, how you're determining that, you know, if it's – but you answered, it really depends on what your investors are looking for and you talked about how the preferred return has come down. Maybe, could you elaborate on if somebody's just listening and they're trying to figure out, wait a minute, why is that coming down?

But you're not the one I've heard across the board, you know? Can you just elaborate on why that's coming down, what do you see for the future as far as these returns?

[0:09:58.0] IB: Yeah, part of it is definitely market demand, there's a lot of equity out there looking for more yields, looking for return on capital and so demand overall is driving that down

but it's also just simple economics, interest rates have gone down as well. The spread between what you would call the risk free rate of the 10-year treasury which I think I looked at this morning, it was 2.08 or 208 as I would say.

In offering a pref of seven, you're talking about a 500 basis points spread between the risk free rates and the preferred return, not even taking into account the potential upside there on capital events, getting you into the teens. To be able to come out of the gate, a seven versus a two is a pretty big risk premium for the right to use your capital if I'm marketing to you as a potential investor.

Really, you know, our thesis right now is we're solely focused on newer, 90s or younger assets that are already reasonably well run that may benefit from a new management team and perhaps some new capital, carry a lot less risk. Most of the investors I run across are, whether they know it or not, value investors. They're really not speculators and they hate to lose money. Rule number one for us is don't lose the money.

Rule number two is remember rule number one and rule number three is how do we get a good return on that? That resonates with a lot of investors out there today.

[0:11:31.4] WS: Are your deals very similar in how they're structured or are there sometimes where you might do a hurdle or a waterfall and sometimes you want?

[0:11:37.6] IB: No, they're pretty much similar with how we're moving forward, you know, part of our structure now is the multi asset EPN, it's got some function of a fund, still got to define time period with some of the extensions on the back end if needed but it will be our – not our soul priority but most of our focus Whitney is going to be in that fun format and we've drawn in a pretty tight little boxes to what we can put in that fund.

We're looking for those flight to safety, defensive, low risk assets, they're a diversified market, they're newer, they're well run, sure there's some upside down the road but there's far less downside risk. The counter part of that is, those deals probably aren't going to hit north of 20% IR, maybe one out of eight will, maybe two but they're also not going to go bust, they're very

hard to screw up, they're less susceptible to market forces. That's the position we want to be in at this late stage in the cycle.

[0:12:35.8] WS: Thinking about structuring a deal and thinking how you talked about the hurdles and I felt like hurdles allows the sponsor to be paid more adequately if he's doing really well. You know, I was thinking about, what does an investor need to be thinking about when they're, or maybe some questions that you get at a little higher level from more sophisticated investor when they're looking at your deal structure that maybe the common investor wouldn't understand.

[0:12:56.9] IB: Well, that wouldn't be the case with me because we worked really hard to make our structure pretty simple. So that the accredited investor who is not in the space, the physician, the dentist, the high paid sales person, it wants to be in real estate but not as sophisticated to say the private equity fund, you know, that's got hundreds of millions of dollars to place.

We want to keep it as simple as we can, we're really fortunate to have lots of investors that come along with us and we've built those relationships over time. We have to be careful not to get too complicated over time or get too big in our bridges I think is the saying if I remember correctly. What we do see, I guess your traditional real estate private equity companies or those guys that typically will only partner with larger institutions, you almost always see a hurdle there.

You see returns based on an IR calculation before the hurdles kick in. You see lots more decision language. A lot of things that take a lot of power and authority away from the sponsor and I just don't want to do that. I'm supposed to be the chef in the kitchen, it's my track record and my team's track record that we're betting on.

Having to get permission to put my shoes on and go run is just not all I want to be in. I would rather continue to partner and grow my own client base of investors to trust what we do and want to come along with us and put their hard earned capital next to mine.

[0:14:25.1] WS: You know, I was thinking about you talking about you all started a fund, how does that change how you might structure a deal or does?

[0:14:31.9] IB: No it does, it rhymes with what we've always been doing but it definitely takes some more education from me to the investor to understand a wide spectrum of what a fund can be and how it can look and how it can look and how it can operate.

I have to do a lot of education, I've been on the phone a ton in the last few months helping my LPs, my investors understanding exactly what we're doing, why we're doing it and why is it an advantage to me but also why it's a great advantage to them.

That structure's changed quite a bit because predominantly, you know, my investors are no longer underwriting specific deals. New investors are coming along and they have to underwrite me as the sponsor in my team because you don't necessarily get to pick and choose what deals are in, we do.

You've got to decide as an investor if that makes sense and the way that I will look at it is a really mediocre sponsor can wreck a great deal pretty quickly and a great sponsor can turn around a mediocre deal as well, and so I think most investors should be underwriting the person in charge of the deal or the sponsor, all the same thing there, much more intensely than they underwrite a given property.

[0:15:41.8] WS: Great advice. What are some mistakes that could be made there? Not in your phone specifically but just in how you've seen people structure deals?

[0:15:49.6] IB: Well, it's something that I did myself and that if I had a time machine, I would change, it may not be that easy in today's market. I would have charged more fees from the beginning. Now, instead of having be on the low end of these structure, right in the middle of that bell curve, right? There's only people that are more expensive than me and plenty less.

We try to be right in the middle and nobody's really complained about it. What I did for the first several years was I basically grew this company on a property management revenue stream because we have the property management in-house and so I wasn't charging much in the way of the asset management fees or fund administration, disposition, refinance, all these things that take people, they take bandwidth and efforts.

They take time and number one, good investors understand that, right? Somebody that doesn't understand that you need to make money along the way, could be probably shouldn't be in your investor group anyway if you don't get that because it does cost money and I can't just work harder myself. I've got to surround myself with smart people, right? Spoiler alert, if you pay them well, they tend to stick around longer, they tend to do a better job and either way you tend to attract better people.

By right sizing our fees in moving forward, we're able to hire people and give them great tools, great resources, in order for them to best execute their job description.

[0:17:16.6] WS: Could you maybe elaborate on fees a little bit? Since, somebody that's maybe they've done one syndication and they're just getting started and they're trying to maybe – I've heard people's mindset saying, you know, we want to keep our fees lower because we don't have much track record or that type of thought but what would be your answer to that?

[0:17:33.1] IB: Yeah, you know what? It really depends on your market. This is probably a capital raising call type of question that I'm going to answer it now anyway. The best way to ensure that you raise enough capital for your deals is the stuff that your pipeline and full potential investors.

Always be stuffing that pipeline full of potential leads. Everywhere you go, everybody you talk to, either is the potential investor, know somebody that is and so the more you can stuff that pipeline, the less susceptible you are to losing somebody that you thought you had because they thought you were overcharging them on fees, right?

It's more about setting your standards, setting your structure and then finding investors that match with that. For instance, for me, it's my job to be transparent as I can with the investor so that the investor who comes in all shapes and sizes and needs and wants and risk tolerances and so on can self-select if we're a good fit.

[0:18:32.8] WS: I like that. Being transparent from the beginning so then there's not a big change or a big surprise six months later.

[0:18:39.2] IB: Yeah, over the last two offerings, we've become more and more clear, now I think they're all on one page in bold, here's all the fees that come out of this deal, here's the list so everybody knows what they are and there's no surprises and that way, somebody can call me on it if they want to, I can answer why. But to all you potential syndicators out there. If your fees are in the middle of the market already, your good investors, your good partners, which is what you want really are going to be fine with it.

[0:19:08.1] WS: Nice, so tell me about that one page again. You send that, you put your fees on there, I guess somebody is not having to ask for your underwriting and looking down deep in the underwriting to figure out what your fees are.

[0:19:18.1] IB: Correct. Yeah, we put that on a data page that's got lots of data points on it but then it's got a specific area where it shows projects and fund level fees. So everybody knows what we're making.

[0:19:31.3] WS: You know I really appreciate your time but is there anything else about deal structures specifically that you would like to share with the listeners?

[0:19:37.1] IB: Yeah, you know I would emphasize that you, the GP, the sponsor of the deal, it doesn't have to be just you. I know lots of syndicators out there that partner with other syndicators. I do mine in house. I am very lucky, my partner is the opposite of me. He is much better at finding deals and managing our acquisition pipeline and I stay out of his way and I am more of what you might refer to as a capital raiser and I just see lots of young, well equipped syndicators partnering with other syndicators and becoming more valuable as a team than they would be apart.

So I think this is a team sport. There is all kinds of ways to skin that cat and there's folks out there that will back you up financially for a piece of your deal. There is really no obstacle to this business if you are willing to learn and not give up and just continue to try and improve yourself a little bit every day.

[0:20:31.9] WS: Great and what's your best advice for taking care of investors or maybe one thing you do to stand out amongst other operators?

[0:20:38.0] IB: Deliver bad news quickly.

[0:20:41.6] WS: That's good.

[0:20:42.6] IB: You know in multi-family there's always something going on. So if you can be transparent on that and let people know when things don't go according to plan and how you're going to fix it or pivot, investors will trust you even more. One of my very first deals, I had one investor, it wasn't even a syndication. I would call it a syndication light, we just had an operating agreement. It was a 35-unit deal and Whitney, I think you know that some of this but it almost killed me.

And everything that could have gone wrong on that deal went wrong and we ended up selling it and doing about a 9% IRR on five years. So it wasn't all bad. We didn't lose money. We made a return, far less than we had hoped but the whole time, I was honest and upfront with my investor and did everything I could to keep him in the loop and let him know, "Hey we changed the plan again. This is what we are trying now" that guy is still with me today.

Still investing six figures in my deals and happy to do it and that's translated into how we handle our investors now and in the future and by doing that you are going to get a lot more investors that are willing to write bigger checks. Most of the skin investors, if you try to pretend like you're batting a thousand or you have not made mistakes and you are not upfront about these things and honest they are going to smell it anyway, and they might not tell you for that but they probably won't invest with you.

[0:22:00.6] WS: Appreciate that. Ivan, no doubt, you got a lot of know, you got to keep communication is key in most relationships, especially in that one. So you've been a great guest, I appreciate your time again on being on the show and sharing and tell the listeners how they can learn more about you and get in touch with you.

[0:22:14.6] IB: It's always great to be here with you. I appreciate you letting me ramble on here and there. It was a lot of fun. So I am pretty easy to find if you spell my last name correctly. That is Barratt. If you Google me, Ivan Barratt, you can find me. Ivan Barratt Education is a website I put together for high net worth investors to learn more about me, my team and our investment thesis. The corporate site is Barratt Asset Management. I got another website, ivanbarratt.com and you can call me at 317-762-2625.

[0:22:50.7] WS: Wow, I appreciate you putting that out there. Not everybody puts their phone number out. So what an opportunity, listeners you ought to give him a call. So thanks again, Ivan. I appreciate the listeners being with us today and every day and I hope you also go to Lifebridge Capital and connect with me and go to the Facebook group, The Real Estate Syndication Show so we can all learn from experts like Ivan grow our businesses together. We'll talk to each of you tomorrow.

[0:23:11.5] IB: Thanks again.

[END OF INTERVIEW]

[0:23:14.1] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Lifebridge Capital. Lifebridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Lifebridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success

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