EPISODE 340

[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]

[00:00:24] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Doug Fullaway. Thanks for being on the show, Doug.

[00:00:32] DF: Thank you.

[00:00:33] WS: Yeah. Honored to have you on the show. This is a topic we don't get to hear a whole lot about, so thankful to have you on, because I know there's listeners who are looking to get into this asset class who are looking for more content and more experts in this field. But a little about Doug, he's an industrial engineer, Marine officer in Harvard MBA, former CEO of the largest software provider to assisted living communities with thousands of sites — 100% focused on raising equity and investing in senior living.

So, Doug, thank you again for your time today. Give the listeners a little more about who you are and what your focus is in this industry.

[00:01:09] DF: Many years ago, when I found myself selling software to assisted-living communities, I began to realize that there were people with a huge passion about taking care of seniors. Many of them had started their business sort of out of their heart, and they didn't necessarily have good systems or good processes to run their business. They started with one community. They were successful, and they grow to two or three. By the time they got to 10, they realized it was way more complex than they had imagined.

QuickBooks had stopped working for them, because they couldn't do all the manual work. They couldn't find enough people to do that, but I also began to see a set of operators who were very much superior at delivering quality care and making great money. I found those people really struggled to raise money largely because, for example, the multifamily housing business will put up about 350,000 new units this year. The senior living space will put up less than 50,000.

So it's very small and not as well covered and certainly not as well understood. So when those people want to raise money, they were often talking to people who didn't quite understand what they were doing. So I've seen that this is evolving, and it's certainly changing. But it's still a business which is very much run by small businesses. Because of it, it's not very efficient to go raise the capital that you need.

[00:02:44] WS: Wow! So many topics here we can talk about, but it's neat that you bring up just the, what you say, 350,000 in multifamily and then the 50,000 in senior living. Just those numbers and the differences in those asset classes. So it makes sense that potential investors, a lot of the even that I talk to, a lot of times it's their first time thinking about investing in a syndication, much less thinking about the specific type of asset class. Then we try to educate them on multifamily and different things that we're doing. But then you have another thing here you got to educate them about, about senior living and that type of business.

[00:03:17] DF: I do. I would say that it's, in many ways, not any different than multifamily and that the same things you understand about the real estate running it are true. You just now have to add on top of it all of the other things that have to go on. But it's worth doing for a couple simple reasons. The first is if you look at the population of those over 75 years of age, it's going to grow by 10 million people in the next 10 years. That's about a million people more per year who will need some kind of proper care and housing.

Now, only about 10% of those will move in to some kind of senior living community. But even then, that's a million. You take a million new people a year and 10% — that's 100,000 new beds needed every year. That's a thousand new buildings. So there's a massive opportunity here that's just beginning to take off now, and it will go for 10 years. So when you could learn about a market that's not well understood by everybody, that's going to have that kind of pressure on it tailwind behind it. It really does show that there's a large opportunity coming. Is it as big as multifamily? No, but it's a place where everybody hasn't invested. Because of it, if you understand it, you can find real opportunities.

[00:04:39] WS: When you understand those numbers, you can get ahead of it. Right? You're talking about –

[00:04:44] DF: You can.

[00:04:45] WS: How do we find that best market or location where we can get ahead of that and see that happening?

[00:04:51] DF: I want to make one other point before I answer that question, okay? That is, if you look at all of the different kinds of real estate that you could invest in — retail, industrial, warehousing, commercial private homes, and so on, there is a group called the National Council of Real Estate Investment Fiduciaries, NCREIF. They've been reporting for many years, and what that report has shown over and over and over again is the asset class of real estate that produces the best returns is senior living. It's not well-known that that's the case. It's been 14% average annual returns. It's currently dropped to about 11%, but it's always 5 to 600 basis points better than apartments. So not only is it big, it has better returns.

Now, to your question about, "Well, where do you find these things?" It's kind of like asking the question where do you find hotels. You find them everywhere. But it also gives you some clues. If you were to go to a class A market, let's say we're going to go to Manhattan — well land is difficult to find. It's very expensive, and there are a number of large national operators who are currently building in that market. For most of us syndicated deals, those markets are very difficult to go to, because there is really big money there.

But the minute we move to a secondary market, like I live in Portland, Oregon, or even to a tertiary market like Salem, Oregon which is smaller, now you still find 75-year-old people who need assistance who are looking for a nice place to go. So you can find these everywhere. I think that when you go look for them, first, it's the market. The second thing is it's to understand that this is driven by a market that's five or seven miles in diameter.

It really doesn't matter what the national average is. It really doesn't matter what the national occupancy is. What matters is if I'm going to put my money into a business that's located in this space, what's the product you have? How does it compare with the other things in a 20-minute drive circle, if you will? Most people tend to stay where they've lived. They don't move. Now, there are some exceptions — there's a pretty steady migration to Florida or to Arizona. But in general, people stay close to where they live. So it's not hard to find where.

[00:07:16] WS: Interesting. So it kind of brings me to a question. I grew up in a really small town — one stoplight. I mean, there's just nothing there, and there's no like a great place that you want to send your grandparents to where they're going to just get great care. But I think about that small town versus there's larger towns that are close by that have some really nice places, senior living facilities where they just get great care, great communities, and all those things. Is it something that a small community like that, is it valuable to go in and build a small facility? Or is it something you're mostly going to look for in larger communities?

[00:07:51] DF: So the answer is a little bit more complex than you might imagine. I'm actually part of an ownership group that has a property in Madras, Oregon. Nobody's ever heard of Madras, Oregon, even in Oregon. Its population is 15,000, and one would ask, "Well, is there some kind of senior living community there?" Yes, there's one. Now, the only reason Madras is famous is Jacoby Ellsbury, the pitcher for the New York Yankees, grew up there. He played in Oregon State before he went to Boston and then New York. There's nothing, and you would think, "Well, will it work?"

The reality is you can't make a small assisted living community work in the smallest town around. They're called group homes. There are, at least, 6,000 of those, for example, in the State of California. So it can be done. It is a different kind of business than most assisted living. Because it's so small, it first of all maybe difficult to keep it full and keep the economics working. My experience is that anything less than 25 units in size is really prone to the ups and downs of the change in the demographics. People get old, and they die. The average length of stay in an assisted living community is just about two years, and that's really because assisted living is a place that we’ve got where people go when they absolutely need help. They don't go because they woke up one Saturday morning and said, “Gee, Martha. Let's go look at assisted living.” That's not how it works. It works because people need help. They're no longer taking their medications. They’re not eating well. They’re confused. They truly need 24/7 help.

Now, there’s another type of offering, which is referred to as senior apartments. They’re just that. They’re apartments that are age-restricted. Or independent living, which is like an apartment. However, meals are offered. Those are growing very, very quickly. In fact, if I were starting in this business as a syndicator or an investor, I would definitely consider independent living. It's definitely a growing product. Most of the properties that are out there in this class are over 15 years old, so there's new building going on, and they’re not that difficult to run. Typically, there are no state licensure rules for those. There might be some, but they’ll be very simple.

When you step across the line to providing assisted living, it now gets more complex. So back to your question about a town that’s very, very small. It’s unlikely there’s going to be a 120-unit assisted living community built there ever. That’s just not going to happen. For that, you’re going to need to go to a larger location, but the beauty of those properties is they can provide more public areas, more amenities, and a larger range of services. So it's actually a little easier.

Having said that, here in Portland, Oregon where there are many, many assisted living communities, there are also many group homes, because some people just like living in a place where there are five or six other residents who need help. They don't want to be someplace where they have to go to the dining room. Where there are going to be a hundred people eating. So there are different products for different people and their needs.

[00:11:19] WS: Nice. So in your bio, and you mentioned it briefly, you’re 100% focused on raising equity and investing in senior living. I’d like for you to maybe elaborate on some of the difficulties you faced raising equity for this type of asset class and how you overcame those.

[00:11:34] DF: So there are a number of difficulties, and they can all be overcome. But the first one is the asset class is not well understood, and I found myself telling the same story over and over again to the point where I actually wrote a book about investing in senior living. If people want to go to my website, fourteenplus.com, go to the resources page, so they can download the book for free. It's because I wanted to educate people about what could be done. What should they read, where do they find the data.

So the first thing is you just have to understand the business. Of course, the people in the business, they know it. But it's interesting. If they've learned it from the ground up, that doesn't mean they understand financing. So the second hurdle I faced is I often get a pro forma or a set of financial saying, "Okay, I'm ready to go raise money because I want to go acquire another property." The financials are just the budget, if you will. There's nothing about sources and uses. There's nothing about the waterfall in terms of we're going to have an 8% preferred return. Then we're going to split everything between 8 and 12% at 80/20 split. Then everything above that, we're going to do 70/30. They don't even know what those things I just said mean.

So it isn't that they're not good operators. They're great operators. So I can add value by helping them prepare themselves to present their case financially. One of my favorite pet peeves is I get offering memorandums, they're beautifully written, 75 pages long — everything you'd ever want to know. But you have to read to page 64 to figure out how much money they want from the investor and what the return will be. A lot of high-net-worth individuals will not take the time to do it. I found that just putting them page one makes a massive difference in the return phone calls I get.

So there are two things here. The first is the people preparing it need to make sure it's got the right information. A checklist of things that ought to go in any offering memorandum is not difficult. Go look at the good ones and copy those and then make sure that the people putting the information together know how to do it. You'll be amazed at how people are really good developers or really good operators just don't have that experience. So as a syndicator, you can add a lot of value.

[00:13:50] WS: So other than writing a book, that's impressive. Now, you wrote a book to help educate these potential investors and other operators even, but are there other ways that you found to educate your investors? When you have that offering available, they're prepared. They understand the asset class.

[00:14:05] DF: Yes. Certainly, there are some really good resources. There’s an organization that’s referred to by its nickname, which is NIC, N-I-C. It stands for the National Investment Center. NIC.org is all about helping people raise the money, both debt and equity they need to run a senior living business. It’s not focused on hotels or apartments. It’s focused just on this one topic, and you can go to their website. There’s lots of good information, you can read about it. Then you quickly discover there are a couple publications you can look at. There's a newspaper that comes out once a month, Senior Housing Business — 25 or 30 pages long. It costs a little money, but there's a newsletter that almost everybody in the industry reads that has all the information about the deals that are going on.

So if you read those things and then start just watching for local conferences. Every state has a show of some kind, run by either Argentum or the American Healthcare Association. So you can go to those local events, and you can get to see operators. You can get to see the vendors. You don’t have to travel all over the world and spend a lot of money. You can go locally and learn a great deal.

[00:15:23] WS: Nice, some great resources there. Thanks for sharing that. What are some other, say, pros and cons or maybe reasons that you really took to this asset class as opposed to multifamily or self-storage or something else?

[00:15:36] DF: Well, this was not about the money. This was about having been in literally hundreds and hundreds of these properties and knowing the operators. This is a calling for people to take care of other people. It's nice to say I own an apartment and I make this return, but it’s a very different thing when you walk in and you can see that there are a hundred people who, except for the fact that this community was there, would probably be at home, probably be by themselves, probably not eating well. They’ve lost many of their friends who’ve died, and they don’t have any social life. So when they move into this community, they always say the same thing, “I should've moved here five years ago,” because life comes back.

There are people who are at home, and they went to the hospital because they broke a hip. They were depressed, and they really couldn't go home. They hadn’t had a very good life. After they move in, they have a great life. So part of this is — I just see a huge growing need for leadership in this space, and I see huge growing need for people who need to be cared for. The fact that you can also make the best returns to me is the best of both worlds. It's like I'm doing something good for people and making a living at it. It's an unusual market in that regard.

[00:16:56] WS: How do you find these types of deals, and what's your buying criteria?

[00:17:01] DF: So I find these deals perhaps in a little bit of an unusual way. I have the luxury of having sold software to literally thousands of these sites with my team, and I got to know operators. So I just let the world know, and they sort of come my way. But it's amazing how many of them come to me, because a mortgage broker will call me and say, "Hey, this project is going to start and we need an operator." So I help them find an operator. So you can build your own network by simply being highly responsive to the questions that come your way, providing good quality information.

So the ways that I would do this if I were starting from scratch and I didn't have the software background, I would absolutely go educate myself. I would join the healthcare association in my state to get to know people. I'd let them know what I was doing. By doing that, I will start to get phone calls. I would make sure I attend a few of the conferences. There are some regional conferences put on by Senior Housing Business that are relatively inexpensive — it's $400 for the day. You can go see operators and lawyers, and you just start connecting with people and collecting cards and passing your cards out. Then the minute people see that you're responsive and you're adding value, you start to get phone calls back.

[00:18:17] WS: So, Doug, what's been the hardest part of this syndication journey for you and all?

[00:18:23] DF: The hardest part is "finding the money." You quickly discover that there are sort of tiers in here and not that one is better than the other. They're just different. Blackstone and BlackRock and Apollo, all these massively large billion-dollar funds are all in this space. So you really can't get in the middle of that, because you can't add any value. You're not going to get any money from them. If you go to high-net-worth individuals, there are many who don't understand real estate. They're high-tech people, but they are approachable, they will listen, but it's a long journey to get them to be comfortable, like a year.

I look back through the records I keep, and I can see that when I get a high-net-worth individual, I usually talk to them 12 to 18 times before they make their first investment. By the way, that's not unusual. A tactical placement agent who's placed well over a billion dollars in this market, and he said his average number of contacts with a high-net-worth individual before they invest is 16. You just have to be persistent. You have to stick to it. Once you do that, you get there and others.

Another way you can get there and find smaller amounts of money a little bit faster, if you will. There are what I refer to as investment clubs that might have 1,200 members who are CEOs and lawyers. They have somebody who's running it, and they charge a lot of money, unfortunately. But if you want to get a deal done, sometimes it's a really good thing to do for the operator to take them there well prepared. Help them negotiate a reasonable deal. I know somewhere we raised someplace between one and four million dollars in six weeks like clockwork. It just tick, tick, tick.

But I've done it enough times, so I know all the things they want to see. So I don't even call until it's all ready. I've already brought the operator up to speed on what's going to happen. So if they just need a million and a half dollars, that's a pretty reliable thing. Now, it's always nice. I have some family offices that vary between – They'll invest half a million until they will invest $10 million. That's taken me a number of years to get in place. I'll confess. I never know what a family office is going to do.

Somebody invested two million dollars last year, and they say, "No, I'm overextended here. I don't want to do it." Or there are a million things that happen. So it's kind of a game of big numbers. How many clubs can you know, how many family offices can you know and so on. There's no doubt people call me and say, "I want to invest." So I take their name down and help them find their first investment.

[00:21:00] WS: How did you prepare for another downturn?

[00:21:04] DF: Well, it's interesting in the senior living space. The reason it has the highest returns is an 82-year-old lady who has problems really doesn't care what happens to the downturn in the economy. It's irrelevant. Through the 2008 downturn, senior living didn't turn down. It just kept chugging along. So the answer is I just stay calm and keep going. There isn't really a lot else I can do or anybody needs to worry about it. It's an unusual asset class that way.

[00:21:32] WS: I love that. Yes. Stay calm and keep going. We got to do that anyway no matter what asset class. That's awesome that it didn't affect senior living like that. It makes sense. But what's a way that you've recently improved your business that we could all apply to ours?

[00:21:47] DF: So one of the things I've done is I decided that keeping spreadsheets and lists was not very effective for me. So I went out and looked for a CRM. I chose HubSpot, but there are others. The big thing is it just automates my process. It remembers when I forget. It's so powerful when I send out something that I can see that somebody opened it nine times today and they passed it on the two other people. Then I know they're interested. If they don't call me, I will call them.

On the other hand, if I sent something out to somebody, they opened it once, and they never looked at it again, I don't bother them. It's not a good use of their time. It's not a good use of my time. So that's one of the things that's helped me a lot.

[00:22:25] WS: Great advice. I love that. What is your best advice for caring for investors?

[00:22:30] DF: You got to communicate even when it's inconvenient for you. You got to just have like a schedule and keep in touch. They want to know, and you get so busy with so many things. You forget about one of them. So you need an organized way to do it. That's what I've learned that makes a big difference.

[00:22:47] WS: Is there any one quick thing you can tell us about how you've organized that?

[00:22:51] DF: Well, I have a calendar. I make sure that, first of all, in my deal pipeline, for every deal, I see the names of people I'm involved with. I make sure that, at least, once a month, they get an email from me with an update. Sometimes, it's once a week because it's busy. But that way, I can look at my screen visually and see all the deals and see who I've communicated with and whom I still need to get to this month. So I just make sure it's like clockwork. Every month, everybody gets something.

[00:23:21] WS: Doug, what's the number one thing that's contributed to your success?

[00:23:24] DF: Persistence. You just have to stick to it.

[00:23:27] WS: Keep going. Right? Stay calm and be persistent.

[00:23:29] DF: Just be persistent. It'll come.

[00:23:31] WS: Before we have to go, tell the listeners how you like to give back.

[00:23:35] DF: Well, I give back in a pretty simple way. I work with the board here for the two skilled nursing communities run by the State of Oregon. They're the Oregon Veterans Homes. I'm a veteran, and I'm the finance committee chair, and I put in time making sure that their finances are well done. I also teach at the University of Wisconsin, Eau Claire. I'm building a simulator — it's like a flight simulator for senior living. I built one and it's been used hundreds of times. I'm working on a new generation of that with a number of professors and a number of CEOs. I finally give back in helping teach new leaders.

[00:24:11] WS: Wow! That's awesome, Doug. First, I want to say thank you for your service and always appreciate our veterans and for your time spent there. Appreciate your time today. It's been a great show, and I'll that many people to talk about senior living and they're experts in it like yourself. But tell the listeners before we have to go how they can get in touch with you and learn more about your business.

[00:24:30] DF: So the easiest way to get to me is go to my website, fourteenplus.com, you just spell the two words out. There you'll find contact information. You'll find some resources and things you can read. You'll see some history of things. That's the easiest way to get to me, because my email is there, and you can just either call me or write me.

[00:24:46] WS: Awesome. Thank you, Doug. Great show.

[00:24:48] DF: Thank you very much. I appreciate the opportunity. I wish all your listeners well.

[00:24:53] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to The Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get see the latest episodes. Lastly, I want to keep you updated. So head over to lifebridegecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

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