EPISODE 357

[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 Spencer HIlligoss. Thanks for being on the show, Spencer.

[00:00:32] SH: Hey, Whitney. Thanks so much for having me. I'm really excited to be here.

[00:00:35] WS: Yeah. I'm excited for you to be on the show, Spencer, just after our conversation just a couple weeks ago. You've been a great guest, and you can add lots of value to the listeners I know.

Before I tell you about Spencer, I want to remind the listeners to go to the Facebook group, the Real Estate Syndication Show where you can communicate and ask questions of the experts, just like Spencer and other guests that's been on the show. You can leave questions that you want me to ask and communicate with other people who were syndicating deals and connect with other people in your market. That would be great. So leave questions and feedback on there. I would appreciate that. Go to Life Bridge Capital and connect with me as well.

But a little about Spencer, he's an active syndicator, real estate investor, and executive leader for two real estate businesses. His own company, Madison Investing, has cosponsored deals totaling more than 3,000 units, more than $328 million. Also, a technology leader with a 13-year track record of building high-performing teams across five companies, three of them software unicorns, valued at more than $1 billion. Built and led the origination teams for LendingHome and currently leads their professional development group. LendingHome is the largest residential flip lender in the country, responsible for more than $4 billion in transactions and is actively funding, this is impressive, more than 500 deals per month. Wow! That's a lot. That's a lot of lending.

[00:02:01] SH: It is a little bit — it's more straightforward for a single-family home than a 200-unit apartment building, of course, Whitney. But, yeah, it's a lot of transactions.

[00:02:11] WS: That's a lot of transactions, no matter who you are. So, Spencer, thank you again for your time being on the show. I look forward to getting into this. But tell us a little bit about you how you got started investing in real estate.

[00:02:21] SH: Yeah. Thank you so for that intro, Whitney. I'm really excited to be here. So I found passive investing through syndications, through a pretty unique journey. It was one I would just say is wrought with hardship and a lot of hard work and a little bit of good timing. But my own investing strategy is primarily focused passively. You did mention, of course, we do some active and stuff as well. But we focus on multifamily. We focus on real estate syndications. I assume your listeners, if they're tuned in to the syndication show, they're already familiar with what that means. That just means people investing together to buy something so big that they couldn't buy it alone.

So one of the things that I have found and I have come to believe, is like a core belief of mine through this journey is that playing financial defense and offense is something that's a choice. I learned that kind of a hard way from some series of events throughout my family and my upbringing. But I'm happy to share more about that if you like to hear about it. But that's really what brought me to this is realizing we all have a choice. Realizing thatwe all have a choice to really get proactive and also make sure we can protect our families from whatever kind of hardship that life throws at us.

[00:03:24] WS: So you started as a passive investor, and that's what opened your eyes I guess to the syndication business and just the opportunity here.

[00:03:32] SH: That's right, yeah. You know what actually? I'll take it all the way back before we even go to the passive stuff, which is I made my first real exposure to real estate, it came all the way when I was a kid. When I was six years old, my dad was actually one of the top-performing real estate brokers in residential in the country. I watched him grind like really tirelessly, frankly in the ‘90s.

So I was around that, and I just kind of soaked that up. As a teenager, he was making me work open houses. I was in there touring $10 million mansions and kind of glad-handing these affluent buyers. I didn't want to be there, of course. It was not where I wanted to spend my time, but life was good. But I was exposed to that real estate culture early on, and then I went through and watched my family go through some pretty tough times. We entered this time in our lives called the dark decade. My younger brother unfortunately was diagnosed with pediatric cancer. He [inaudible] passed away, and my parents got divorced because they typically do in those circumstances.

So it led to these series of big financial fallouts. We had to declare bankruptcy. We had to downsize the family a lot. We had to really, really buckle down. Ultimately, watching all that happen after that exposure to real estate, it had a profound impact on me. It had a profound impact on my worldview, and I became kind of obsessed with this idea that I mentioned earlier of playing financial defense.

I was asking myself questions now as an adult and even all the way through college if you believe that. I was sitting there going like, “What could I have done differently or what can I do now as a parent to avoid that bankruptcy? What lessons can I apply as a parent of two young kids now and a husband? What can I do in the event of job loss, in the event of a terminal illness of someone I care about or myself or something like debilitating injury?” All these different things that is thrown at us in this life.

So my dad was a broker. That’s as active as it gets. It’s an active role. If you stop doing that job, if he stops doing that job, if I stop doing my W2 job, that income stops. So I just thought there must be a better way. So flash-forward all the way to about 2016, a few years ago, and I got this career that you mentioned in the tech industry. I’m out here in Silicon Valley. My fifth software company, Whitney, and I stumbled my way into this amazing lender that's also a real estate tech company. I was exposed to a bunch of flippers and entrepreneurs, and they were trying to get me into it. I researched everything about flipping and wholesaling and all these different strategies across the landscape. I looked at small multifamily. I looked at single-family. It's like all these different options.

I also noticed that people in Silicon Valley, they have this wealth playbook that's really interesting. It was the last thing I was going to mention, because I think you will find it fascinating. The strategy for wealth in the tech culture goes like this. It's four steps. Step one, join in early-stage startup and try to get some meaningful equity in that company. Not real estate equity but company equity. Try to work your butt off.

So you work 24/7 in some cases nonstop. You grind. Step three, you're going to pray that you actually picked the next Facebook or Google so that your early-stage startup equity ends up becoming something huge. Then step four, you're still going to do what the common playbook is there, which is upgrade your expenses and upgrade your lifestyle. So you don't really end up saving much money.

All that said, I was following that path for many years. Despite the fact that I started to have this inkling like I'm not applying the learnings that I got early in my life. Here, I said after reading two dozen books and networking just like crazy within the real estate community and deciding on multifamily as our chosen strategy, we have now passive invested in an ample of deals. We also are now active on the syndication side as well. I kind of pinch myself sometimes, because I couldn't be more happy with the direction that we're headed.

Now, I get to wake up every day and talk to other people about how great passive investing is, because I don't know anything else where you can basically take your money, put it into something, and have it double within a five-year period, and be low to no tax due on it. As I say, that kind of stuff to my tech colleagues. At first, they haven't had exposure to that. They're like, "What are you talking about, man? I'd rather go invest in crypto." Anyways, I'll talk your ear off. But it's been an interesting and occasionally challenging journey to get to where we are now where we look at passive investing as our ticket to a certain level of financial freedom where I can be an active parent, a present parent, which is my big goal.

A present husband and also be able to feel like we've got great insulation from any of life's hardships that may come at us and, of course, to be able to give back charitably at some point. I feel like we're able to do that meaningfully.

[00:08:15] WS: You're working for a tech company that funds the single-family top deals. Why not start doing flips or single-family homes? Why multifamily?

[00:08:25] SH: That's a fair question. So we actually went out, and we followed initially a path that you've probably heard about for others with is a common narrative, which is we look locally first. We thought, "Passive investing, that sounds great." We went out locally. We drove the neighborhoods for a year in the Bay area. We went to the outer neighborhoods. We looked further and further. We devoted whole weekends while we had an infant, just driving around doing open houses, trying to find a real estate agent that was also an investor. We did find one eventually.

We did buy a local duplex, and then I realized I just spent $430,000 to get $250 back monthly in cash flow. So that's not a home run. You call that one of those singles to get on base. We then went out of state. We went the next step. We bought some turnkey properties. Those are actually – we still own those. It's a modest portfolio. They're cash flowing great. But we still found out we have to pick up the phone for our property managers that need management of their own.

We found out that is not fully passive. That is semi-passive, and that's the thing about turnkey. Turnkey is a fine strategy. It absolutely is, and I am very thankful for the vendor that we found and we work with now. But it's not as passive as a syndication. So we learned that just from experience. So we did all those things, and then we ultimately realized, with the the syndication path was the only truly passive one that we have found with the level of returns that we could actually be comfortable with.

But to your question on flipping, I can't help but bring up the Robert Kiyosaki example. I'm sure it's been reference many, many, many times. The bucket in the pipeline, for everyone out there that adores *Rich Dad Poor Dad,* I am another devout follower of that ethos in that book. Robert talks about the example of saying, if you're trying to go and get a solid supply of water back to that village, do you want to use the bucket? Do you want to use that figurative bucket? Walk all the way down. Fill it up again with that one cash flow moment, that one cash event. Dump that cash on the table and stay cool. Look at this, and that's what a flip will do. That's what a broker transaction will do. That's what a wholesaler would get is a one-time cash event.

I was more interested in how do I build a pipeline. How do I build multiple pipelines? Stuff that's going to flow. How do I build something that is like the best kind of boring, as funny as that might sound? Like something that is going to just continue flowing with wealth and is something I can bet on and rely on. So that's essentially what's geared me more towards the passive investing front of rentals. Ultimately, we went through that phase very quickly over a course of a couple years and decided to go for multifamily, because bigger is better, as it turns out.

[00:11:04] WS: So in this passive investing front, do you have that financial number, that freedom number that so many people try to talk about, that they talk about, and that you're trying to reach?

[00:11:15] SH: Yeah. Well, yeah. I appreciate you asking that. It's a common question we actually get a lot from folks in our networks these days, which is what are you doing those for. What's your end game? I'm happy to share our number. I will say that this number hopefully is a reflection of two things. I think it's a reflection of our geography, but it's also a reflection of what we consider to be a good balance for us. Some people want to build wealth for very different reasons than us.

My wife and I met with my business partner. Jennifer Morimoto is my business partner and my wife. That's a separate conversation. We can always go there. But we don't necessarily want to buy a jet. We don't need to go have a lavish, huge mansion. What we would like is geographical freedom to live wherever we like to live eventually with our children, once they get a little older. Then we'd like the ability to not stress. We want to take the money question off the table.

So our freedom number monthly is I would call it around probably eight grand flowing in monthly would be great, full passive. Of course, I'm never going to just sit around on a beach. That does sound super boring. I would like to take vacations like anybody else and go scuba diving and all that good stuff. But I would be very much like to have a reliable 8K. That would be great.

[00:12:28] WS: I love that you have that number in mind as well, and I'll reference another show of Tim Rhode. He's the founder of GoBundance, and he pretty much retired at the age of 40 because of some great investing that he started to do for a case I mentioned for like 10 to 15 years. He was able to retire. So he was I think 60 when we did the interview. For that whole 20 years, he's able to do something like GoBundance, and he started a nonprofit. Through that, he's helped so many people also reach that same level. So, yeah, that's awesome. I look forward to you getting to that level as well.

[00:13:02] SH: Thank you.

[00:13:03] WS: It just frees up your time to help so many others as well, if you will use that time for that, right?

[00:13:07] SH: Very much so.

[00:13:08] WS: How have you had time to research these deals? How did you find the deals to invest in? I mean, how do you know which deals you want to invest in? Kind of tell us a little bit about that on the passive side.

[00:13:18] SH: Yeah. So interesting learning, and I take this actually very much away from my technology career. So a lot of the companies I've worked for, I've been in like the early-stage leadership positions, and it's been focused on operations and on building sales groups. What you learn early is that if you want to move quickly and you want to move intelligently with some rigor, meaning how do you make complex decisions really simple if you have to make them over and over and over really quickly. You have to do that kind of stuff all the time in a scaling technology company. Otherwise, you have no shot at growing.

So you build the framework, and it seems so simple when you say it out loud. But it's the devils and the details. So I really took my time, early on a few years ago, I used coaching programs and I learned how to underwrite from a commercial perspective. I think we learned how to underwrite residentially because of my day job. But commercial is a different animal, and I learned that. I then built a framework, and I just pressure-tested that framework over a course of many different deals, of dozens and dozens of deals. So that framework is one that you are at a high level familiar with, which is the operator or the sponsor, the market and the deal. Or you just talk about the property, the asset, and the business plan for that.

So operator-market-deal, but within those, you just like the operator as an example. Here is the buckets that we look at. I'm not going to nerd out too hard unless we have more time. But I'll say we look at track-record, approach, team, communications. Those are the buckets we look at, and there are sub bullets beneath each of those and a big spreadsheet, which I won't scare anyone with here today. But I will say let's just look at track record. Here's an example of three different things within track record, which is an operator. How do we evaluate the operator? We look for a proven playbook. If I'm about to invest in a deal, I want to know this sponsor has done at least three plus past deals of the same asset class with the same playbook and failure response.

It sounds really nerdy, but here's what that means. I want to know at least one of the GP partners. They must have worked through some kind of really painful challenging entrepreneurship miss, in their life. Sometimes, it doesn't necessarily mean they have to have gone through a capital call, like a painful underperforming object that they're trying to run in real estate. But I have to know that they've been through something, and they've built that muscle memory to be able to navigate that challenge and not freak out, because I don't want their judgment to be compromised when they're sitting there, holding our capital and many others.

[00:15:48] WS: When you ask that question, I bet – I mean, you probably get the response, "Well, I haven't had that happen in my real estate business." Do you get that?

[00:15:57] SH: Sometimes, yeah. It's actually very similar in a lot of ways to interviewing candidates for a job. I hired hundreds of people in my corporate career, and one of the red flags for me is if someone is not willing to stop in that moment and at least think about a specific time. If I ask, "Can you think about a time like when you were challenged to your core?" If they just say, "Ah, I've never really had one," I'd be like, "I don't really mind if you don't have one. I do mind you didn't think about it. That I mind a lot, because that means you're not listening to how much this matters to me."

So I would say that judgment does come into play. I have this fancy framework. In the end, the framework is – It's a guide, and it's not necessarily going to be the answer every single time. So it's a tricky one, Whitney. When you don't get a good answer on that one, it's not a good sign.

[00:16:51] WS: Well, in this business for sure. I mean, you just run upon things all the time that you haven't seen before or — every deal. That's why we have that reserve account or different things in place for it's like there's probably going to be something that comes up that we didn't expect.

[00:17:06] SH: Totally.

[00:17:06] WS: Just in case. I mean, it's just like there's too many moving parts. So it's like we're going to account for those things. But anyway, that or at least outside of real estate. All of us have, at some point, you've had a difficult time that you can elaborate on, but that's a great question though. I like that. But tell us an example of a deal that was attractive to you and why.

[00:17:23] SH: Oh, man. There's a lot. I mean, frankly, I'll be thoughtful about [inaudible] because it's a pretty recent deal. But I was attracted to it, because it's in a market. Like so much of what we do in terms of finding good deals comes down to not the market but the submarket. I think that there's a few big markets out there right now. Take Texas and maybe call it DFW within Texas, which have been declared in some circles as past peak, overhyped. They're overheated, use whatever buzz word you want to apply to it. You can't necessarily stop there at the level of analysis.

So when we look down at the submarket level and you look at some of the places that are tucked within there, there was one specific submarket within DFW, that is not only looking good to me, I would say it is looking extremely promising for the next at least few years, and we're talking in terms of job supplier. We're talking large employers just sidling up with significant investments into that submarket, so that the tenant base is there, ready to match the actual asset that our partners and we have gone in on there. It's just a slam dunk in terms of a fit.

So I looked at, of course, the asset classes. They're going to be like a B class, like an '80s vintage. I think the playbook was proven, but what really got me on that one was just the fact that we've worked with the partners before multiple times. I was okay with that sponsor. I look at the submarket, and the submarket was like, "Okay, everyone is saying DFW is done." It's just not that simple, and I think you have to go a layer deeper down on the submarket level and then really get specific about where are these tenants going to come from and is that supply going to stop any time soon. If there is, it's going to be some kind of major event.

We all use the crystal ball analogy all the time about what may or may not happen in the economy. At some point, that will happen. Maybe it's triggered by a trade war. Maybe it's triggered by something else, whatever. When that happens, is there a counterweight that is significant that will come from that employer base and are there enough jobs to sustain it? So I got real excited about that. A lot of the same characteristics that you would see out there commonly in a lot of other deals, a five-year-hold, attractive returns, single-class structure, and all that other stuff. So it's – probably I don't want to go in too much more detail. There's not enough time, but it was all those things that maybe I feel great about.

[00:19:46] WS: The Dallas, Fort Worth market is supposed to gain like three million more people in the next what? I mean, not too many years anyway. They're growing like mad. So, Spencer, tell me where this kind of leaves you now though. You've been investing passively in numerous deals. What's happening now in your real estate business and where are you headed?

[00:20:05] SH: So this has been a fun time. I think this year in particular, my wife and I realized, my wife and business partner, that we had so many folks that have been asking us what we do and how we decided to get into it that it became a much bigger meaningful business that is growing rapidly for us now. It started off as something where we were just kind of educating our friends and family and our network, and we realized that maybe there is something there.

Now, it's become a passion point. It's a blast. I wake up excited to talk about this stuff, to educate other people, because I invested so much to learn just the fundamentals and now even more advanced stuff. I want to give it back, and I actually legitimately believe now that those many years I spent money dumping into a 401(k) account and I was so proud to check that damn account every month when I was working for these companies.

I look at that and I'm like, "Yeah, that's great. I got like 9%, 10%." I look now at what would've happened if I had taken that same amount of capital that I was working hard to earn over a decade and I had put that into a series of savvy investments that I knew how to research into these types of projects, I would be probably not needing to work anymore at this stage.

So I look at the people in my network, and I think, "If that is a gift that I can give to them and at least educate them with that, then that's a wonderful thing to be able to focus on." So I get to do that. So we built a business called Madison Investing, and we're focused on educating other people, helping them get involved in any types of opportunities. The next big step for us is going to be how do we scale some modern technology and bring that to bear with somebody's education points.

As much as I can get on a phone call, have copies and lunches with people to educate them, and I love doing that and I don't plan to stop, what you can't find a lot of is modern, clean, professional, educational resources that are out there for folks to access. If it's not necessarily free, then hopefully it's like a very reasonable price. But I'd like to think that we can get some good free research that's out there for people as well. So for all those reasons, we got a lot to be excited about right now.

[00:22:14] WS: What's been the hardest part of this syndication journey for you?

[00:22:18] SH: Oh, man. I think focus is a challenge. What I mean by that very specifically is I am actually one of those. Call me a weirdo, because I know this is kind of blasphemous to stay in the real estate investing community, Whitney. I don't hate my day job. So I think the company I work for even currently, eventually that will change in the relatively near future — but I think it's on a great trajectory, and I enjoy the people I work with, and I find it fascinating.

So that said, balancing the many people that I owe it to to take care of because I manage a team in my day job, and then, of course, I have two young kids and a busy family life and friends that I am occasionally still able to see. But then, we also have this business where you always – I'm sure that you deal with this on a daily basis, Whitney, with your amazing trajectory and your amazing show, which is how do you spend the next hour. How do you spend the next week?

Am I really being thoughtful about making sure I am aligned to clear goals, am I being thoughtful and compassionate if I have to go and say no that I can't be with someone? I have to say that a lot. I have to say every day now, “Hey, man. I’m sorry I can’t actually take the time to go meet up with you or have lunch in person. It’s just not on the cards for this week and also I have a really big priority that I’m trying to deliver on, for this week.” So it’s that, and it’s focused. It’s just ruthless prioritization is really a tricky thing.

[00:23:41] WS: Just a few more questions quickly before we run out of time. Give me a way that you've recently improved your business that we can apply to ours.

[00:23:49] SH: Oh, man. I would say that as a process nerd, one of the things that I really believe is try to start getting an awareness of the things that you do that are repetitious, and that might be maybe send the same kind of email many times a day. Maybe you are having to set up a certain kind of calendar event every single time or multiple times a day, maybe even multiple times in hour. Maybe you are taking on lower value tasks, and they are things that you would now in this wonderful modern world that we live in you can actually outsource and figuring out how do you get the highest and best use of your time.

So what I mean by that is, first example I’ll give you, email templates are a beautiful thing. I'm not saying to dehumanize and start treating everyone like a number but start thinking about how you can templatize emails you send all the time, so that you can get back extra time to make those emails even better and more tailored for people. That’s a really dry nerdy example. The other one I’ll give you though, we debated, back and forth about whether we were going to hire a supplemental nanny.

In the Bay Area, it's hard to have two working parents, two young kids, tons of traffic, building a business, working multiple jobs. But once we did it, we realized the investment of that hourly pay for this wonderful woman who comes and helps us three times a week is something where we can get that time back, and I can go finally get exercise again. That just impacts everything else for the better. I can take the time and plan my following day.

So all of these different things are just decisions around how do you maximize the best use of your time and get the highest and the best yield. How do you outsource smaller tasks and how do you use technology to help do some of that outsourcing too? All of those things are in your control, and I'm always happy when someone wants to reach out, and they have had questions about ways that we've done that or vendors that we have used for certain parts of this. Not necessarily the nanny but, of course there's even a service here in the Bay Area where you can have people come to your door and pick up your laundry.

We haven't done that one yet. I was trying to convince my wife that we should do that. But she was like, "Ah. Well, let's think about that." I'm like, "We should do it. We should do it." So we're trying to figure that out.

[00:25:56] WS: Tell the listeners how they can get in touch with you, Spencer, and learn more about you.

[00:26:00] SH: They can reach out at spencer@madisoninvesting.co. We also have a ton of information on our website. So please go check that out. That is at madisoninvesting.co, dot C-O.

[00:26:11] WS: I meant to ask you how you like to give back.

[00:26:14] SH: At this point, we are so darn strapped of our time. What I do actually quite a bit though every single week now is I just mentor people pro-bono. I encourage people pro bono. We also, of course, we donate a lot to – I mean, a lot meaning to many different charities. But I've been getting more pressure to start up a coaching program. But I'm not really keen to do it quite yet if I do it. But I do like to coach people every single week.

[00:26:36] WS: Thank you for sharing that, Spencer.

[00:26:38] SH: Absolutely. It's been a blast. Thank you so much for having me, Whitney.

[END OF INTERVIEW]

[00:26:41] 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 the latest episodes.

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[OUTRO]

[00:27:21] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge 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. Life Bridge 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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