EPISODE 365

[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 Jered Sturm. Thanks for being on the show, Jered.

[00:00:32] JS: Thank you for having me. I appreciate you having me as well as all the work that you and your team put forth to allow people like myself to share our stories.

[00:00:41] WS: You're welcome, and I'm thankful that we can do it. So thank you for your time being on the show. I know the listeners are going to learn a lot from you, because they're looking to learn how you've got where you're at. So this can be good. But first, I want to remind the listeners to go to the Facebook group, the Real Estate Syndication Show and get on there and network with people in your area and other places as well and ask questions of experts like Jered and leave them in there, so we can help you and get you started. You can meet other people that are doing it and are ahead of you.

So also go to Life Bridge Capital and connect with me. I hope if you are enjoying the show that you've shared it with somebody and went left a rating and review. We would be grateful for that.

But a little about Jered, he started in the industry as a residential rental maintenance technician while in high school. So I want all the listeners to think about this, where he started in the business as a maintenance technician. He and his two partners spent seven years organically building their company to 200 units by investing their own capital and focusing on forced appreciation through construction and/or property management. He is now the CEO of his co-founded company SNS Capital Group. SNS has grown to control over $30 million in multifamily assets, all before Jered has turned 30 years old.

So, Jered, amazing story already. Congratulations to you, and your hard work is paying off I hope. It looks like you're making it happen. So I know the listeners are wondering how you got there and how you made that happen. I want to dive into that a little bit, but I want us to get into some other things as well about your business. So give us a few more details about how you went from that maintenance technician. What changed? When did that change? You're a maintenance technician and then all of a sudden you see an opportunity to own real estate.

[00:02:26] JS: Yeah. I think I was always very driven. But when I was a maintenance technician just early on, so I was younger. It was just a stepping stone in the progression, but I always had a natural skill set of working with my hands. The high school, I went to had woodshop and I spent the majority of my time and that woodshop, not in the academics. So I had a natural skill set of that and then found something that would pay me to use that skill set now as being a maintenance tech.

As I was a maintenance tech, I had friends and family members reach out and say, “I know you're fixing this, can you come fix my whatever.” That turned into, “Can you renovate my bathroom? Can you renovate my kitchen?” So myself and my brother who today is still my business partner, we started taking on bigger projects, higher-end bathrooms, kitchens, additions. So it grew into somewhat of a construction company. So I would say there was a progression of maintenance tech to construction company.

Then in 2008, when we saw the real estate market tanking, we kind of looked around and said, “Why are we fixing up other people houses. Let's go ahead and fix up some that we own.” So our first property purchase was in 2008, and all we did was buy the most distressed house and use our lack of capital at that time. We substituted for our work ethic and skill set and construction. So then that grew, and the portfolio continued to scale with our own capital and eventually made the decision to switch over to the syndication model to grow at a even faster pace.

[00:03:54] WS: How fast was that progress? I know you got up to 200. How long did it take to get to 200 units using your own capital?

[00:03:59] JS: About seven years. So that was buy the property, renovate it, pull the equity out one way or the other, sale or refinance. Move on the next property, do the same thing. So it's a slow growth process of redeploy, delayed gratification. Just take the time, reinvest it back in, and learn the process, and get comfortable with how to operate these properties for those seven years.

[00:04:25] WS: You mentioned delay gratification. That's hard. You want to see results right now, but your prime example or reaping rewards. You're not 30 yet. But I mean, you got $30 million now in multifamily assets under control. I mean, it's pretty amazing story that you're willing to have that delay gratification. Just keep pushing through. Keep pushing through. I know that's not easy every day, right?

[00:04:48] JS: Yes.

[00:04:48] WS: It's not easy to keep that going. But now, look at what you've built. Tell us though from the 200 units like moving into your first syndicated deal. What was that deal? How did you move from the 200 units? Give us some of that story.

[00:05:03] JS: Yes. So I guess in the beginning or through those seven years, I did have people reach out and express interest and say, "I see the success you're having. You're investing this capital and it's coming right back out within a short timeframe, and I'd be interested in deploying some of mine." Honestly for that time, I didn't think we were going to do it. So I didn't want the responsibility of raising capital. Even to this day, the way I saw it was people trade small portions of their life to earn that money. If I'm going to take it, I'm essentially playing with little portions of people's lives, and I didn't want that responsibility. It wasn't until we had a mindset shift of I didn't want the responsibility to till I saw we can give people this benefit.

So we had the successes we are having, and I think what prompted that was my dad who is like the most financially disciplined person, I should say my parents most financially disciplined people, and they were going through retirement planning. We are sitting down helping them with the numbers, and I realized their 401(k) that they followed the textbook way of retirement. Work in the job for 30 years. Put it in the 401(k). While they're doing fine and they're well-off, it was less than they expected with following all the rules. So we actually helped them buy a small multifamily and partner with them using some of those retirement funds, and it worked out so well. We looked around and said, "We can help other people do this as well."

Now, I'm interested in having that responsibility rather than getting away from it, and we saw that it could do for other people. So that's when it shifted and said, "Let's take on this responsibility, let's help others, let's grow their capital, and let's make what happened there for my parents for other people." So I think that was the shift that really prompted it.

[00:06:52] WS: Okay. So you seen opportunities. I mean, you're able to help them, and it's like, "Oh, wait a minute. This wasn't as bad as maybe you first thought." But you also seen opportunity to help lots of people and to grow your business as well. So tell us about moving from there. What type of deal was that? But then how did you move into the first syndication?

[00:07:11] JS: So that was just a smaller 16-unit multifamily. It was directly adjacent to one of our bigger properties. So our cash was tied up at that time. We were just having this discussion with our parents. So ultimately, there was a partnership struck there and I guess the start of the syndication. Our next one was a 93-unit deal. This is completely off-market. I put it under contract. I put together the marketing package to send out to investors, and I send it to one investor who was a good friend of ours and said, "Can you give me some feedback before I send this out? This my first go at it." He said, "If you take half of it, I'll take the other half."

So the syndication raising kind of went easier than normal on that one. So that's the way we handled it is we split the equity raise 50/50, syndicated it. So there's only one investor on that one, but gave us the confidence to go into the next few. We didn't take that same route. We have limited the investments going in on the next one so that we can build the investor pool.

[00:08:11] WS: Okay. So you limited the amount somebody can invest, so more people could invest, right?

[00:08:17] JS: Yeah. So I plan to be doing this another 20, 30 years since I realized part of my job in growing this company is to build out an investor pool. Right now, capital is abundant and the bottleneck in the company is not raising money. It's finding quality deals. But at some point in time, that will shift. So raising money will become hard, and quality deals will be more available. So I have to prepare our company for that. To do it, I need to build relationships and performance-based relationships with lots of investors. So we're doing that by allowing more people to participate where that first one it was just one, which is really good because it helped us test the waters and understand it with only one investor on board. Again, organic growth that kind of test the waters grow. Build on that, try again, build on that.

[00:09:07] WS: So how did you meet that one investor?

[00:09:09] JS: I'll try to condense the story. So when we made the decision going into the syndication model, we reached out to the people who had expressed interest in investing. I would say that was probably like 50 to 80 people, and about half of them said, "I'm looking for cash flow." The other half said, "Give me a market where there's appreciation, growth, and wealth preservation." Since that is the market that I'm working in Cincinnati, Ohio, it's a really, really good cash flow market.

But I would say it doesn't have the huge swings as like the coastal market or the southeast. So we looked out at other markets. Ultimately, we made the decision to pursue Atlanta. The only way I know how to open up a market is the way I did it before. So I moved down to Atlanta for two years. I don't want to go to in-depth, but ultimately that wasn't a success. So we tried to buy for two years and didn't find any success there. Just we had no competitive advantage.

But in that process, I met a lot of good people. One of them was this investor. So he holds a high corporate level in the MBA, specifically with the Hawks down there. I had started a real estate meet up group when I moved to Atlanta just to break ice and meet people. He had sat in the back of the room for several meetings and then asked me out for coffee, and we had a discussion and started a friendship. Then that grew from there to a partnership.

[00:10:29] WS: Okay. So from a meet up, you met this guy. So what about that 50 to 80 though? How did all those people know you? How did they already connect with you and want to invest, or at least to reach out, they were at least interested, right? How did you connect for the most part with all of them?

[00:10:47] JS: I get that question a lot. So my friends and family network had come from a lower middle-class upbringing. So that wasn't a network I was using to build investor relationships, because we're working with accredited investors. My friends and family network doesn't meet those requirements for the most part. So what helped to build that 50 to 80 potential investor number was I had been writing for years for BiggerPockets, a website that puts out articles. So I would write there with the intention of just helping people, and I would have people reach out and say, "Your investment philosophy, your experience, everything aligns. If you're ever looking to gain investors, let me know."

While our intention wasn't to do that at the time, I was savvy enough to keep track of them. So I knew potentially this could be a good resource. Something may arise where I need this. So I use a CRM to keep track of these people and really kept a good relationship with all of them. So I'd reach back out. If they were investing in syndications that have nothing to do with me, they would bounce ideas off of me out. What does this underwriting look like? Does this make sense? They knew I wasn't professional money raiser. I was a professional operator.

So I knew what to underwrite things out, where potential problems would be. So they would start asking me questions about other deals that we're going into. I would be giving feedback on what they were looking at, and I think they really appreciated that. So then when it came time for us to actually market a deal, they already had a relationship with us and a feeling for how we underwrite, how we look at investments and all of these things, which helped when we're raising to make that work seamlessly.

[00:12:25] WS: So you're writing blogs on the BiggerPockets website?

[00:12:28] JS: Yes. Then I've been on several other podcasts. So that helped build out those relationships and open doors to areas where I am not from and haven't traveled to. So just using the power of podcasts like yours and growing the network.

[00:12:46] WS: So what CRM do you use?

[00:12:48] JS: Right now, it is Juniper Square. So it's been different ones throughout the years. So we use Juniper Square, which is an investor-reporting software really with a built-in CRM. The investors have really enjoyed that software particularly, because it's a – The way I describe it is is it's like E*TRADE boiled down to a more simple product for the investors to log into a portal, look at it, see the performance of the investment, see all the reports, tax documents, things like that. But on the back end, it has a CRM to help me keep track of all that stuff.

In the beginning, it was just Excel. So when we talk about those 50 to 80, that was just me tracking in Excel, having phone numbers, emails, names, notes, things like that.

[00:13:32] WS: So you mentioned keeping a good relationship with all of them. Tell me – Can you give me some examples about how you did that?

[00:13:39] JS: I don't know I guess it's just with any relationship. You're just trying to be helpful. It truly wasn't a strategic marketing practice of I'm going to stay in touch with these people and answer their questions so that one day, potentially they'll invest with us. I had no intention at that time of doing it. Just wanting to be helpful and I still to this day have those conversations of they'll bring me a deal that has nothing to do with me and I'll sit down and look through it and have those conversations. So I'd say that was one tip that was helpful. But it's a balance between being helpful, somewhat of a friendship, just wanting the best for that other person. Really, if you look back to our reason for going into the syndication model, it was wanting the best for these people.

Yeah, you can't just talk to someone one time. Maybe they reach out. Then four years later, go back to them and say you want to invest. They're like, "I don't even remember who you are," because people invest in sponsors more than they do deals. So it's a matter of staying top of mind, staying helpful, letting them know who you are as a person, genuine, trustworthy, honest, those types of things. I hope that answered your question.

[00:14:48] WS: It does, and I appreciate you mentioning that investors are investing in the sponsor or the operator more than they are the actual deal itself. They're not going to understand this whole process in business as much as just building that relationship and feeling comfortable with you. So I appreciate that. You mentioned you reached out to them, and you said some wanted cash flow, some want appreciation. How did you reach out to them? What did you ask and what kind of response?

[00:15:14] JS: I don't remember how the conversation went specifically. There was no script or anything but just, "Hey, how are you doing? I know you expressed this interest, and we're thinking about going into this model. This is how that model works," because some of them weren't 100% familiar. "If we were to do that, what would you look for from us? What would make you say yes?" Really, it was kind of a split down the middle half said, "I'm looking for income passively." The other said, "I don't really need the income. I have enough income. But I'm looking for wealth preservation potential for growth down the road, long-term holds, things like that."

Honestly, the half of the group that said wealth preservation was the wealthier half of the group. So we pursued a market that catered to that. But what I found was that wasn't my own investment philosophy. So I never was able to purchase a deal because, one, I didn't have a competitive advantage in Atlanta. But also, it didn't match my own investment philosophies.

I was looking for cash flow in a market where there was more speculation than I was comfortable with. So that failure taught us a lot about who we are as investors. So we came back to Cincinnati and just continued to grow the business. It was growing the whole time we were away, but continue to grow the business with the focus strictly on Cincinnati and just catering to that cash flow type investment rather than the wealth preservation potential for growth.

[00:16:34] WS: Before we ran out of time, tell me about like a recent deal maybe that you've done, types of deals you're doing now.

[00:16:40] JS: So all of our deals are pretty similar. Again, finding what were good at and then focusing on it is what we try to do. So a recent one – We have one in progress that funds are raised. Everything's done. Then we'll be closing here on the 23rd which today is the seventh, but I think this podcasts is coming out somewhere around then. So hopefully, we'll be closing and everything will be running smooth.

But that was a 108-unit deal here in Cincinnati, Ohio. Buying it at 55,000 a door, C to B class property, built in the mid-‘80s, and just needs a renovation component, so about $900,000 in renovation. That will go into cosmetic interior upgrades, button up any deferred maintenance, and then push rents. That' kind of our core strategy, falling back on that construction background and then on our property management experience of growing the property management business under ourselves as we've been growing the portfolios.

So that one, it is a 10-year hold. Just again value-add, push the rents, and then focus on that consistent, predictable cash flow that we talked about.

[00:17:47] WS: So investors are all on board for a 10-year hold?

[00:17:50] JS: Yup. Yeah. I was really surprised by the interest in this one. Again, raising money is not the bottleneck at least in our company right now. It's finding those good deals, because we might not put out a deal for a year, two years. It's more about aligning ourselves with opportunities and then executing on them when they become available.

So we're not a firm that's putting out a deal every week or month or anything like that. So when we do put it out and having those strong relationships, it moves pretty quick. This one actually fell less than 24 hours. So we made the decision. On the next one, we're going to carve out 25% or so for investors who have never participated with our company. That, again, goes back to helping build out the investor pool for when we do need more relationships.

But we're finding has happened is you produce a track record in performance with your investors that have participated in, and they can make the decision even faster on the next one, because they have this comfort level. But we wouldn't expect anyone who has never invested with us to be able to make that decision in less than 24 hours. So kind of shot ourselves in the foot there a little bit, but we'll stick by our word, take all of these investments, and then adjust on the next.

[00:19:03] WS: What was the raise for that deal?

[00:19:05] JS: About 1.6.

[00:19:06] WS: Good for you. Congratulations! It's a good problem to have though. It's a good problem to have. So going forward, it's same types of deals. Then you mentioned like you may not put one out for another year or something like that, and I appreciate that. Just the patience in finding the deal that works and sticking to what you know works. Moving forward, it's still – What's your criteria I guess I should say? What's your buying criteria moving forward?

[00:19:30] JS: So, again, we're focused only on Cincinnati market. We just have learned that that's where we have competitive advantage. That's where we've built out our management company that manages our assets. So Cincinnati market, a hundred units or more, C to B class, garden style with some kind of value-add component. Now, when I talk to brokers, I don't limit it to it has to have a value-add component, because every single buyer in the market is saying that. A lot of the value-add components that we end up finding the brokers miss and oftentimes the typical value-add of renovate push rents $200. If that exists, it's already being paid for in the marketed price or the whisper price off market. They know that's an easy low-hanging fruit.

So we look for lots of small ways to add value, whether it be submetering of the water, which is a value-add that we've done. A broker missed that. This market is stabilized. But with our construction background, we went into the property, looked around, realized immediately that there's a humongous water bill here, but the pipe, the hot and cold are dedicated to each apartment unit. Let's break out the submeters and pass back that expense. So that would be one example. But there's many, many small examples, LED lighting, things like that where you look for all of these components.

So back to your question, we're looking for C, B class Cincinnati market, a hundred plus units with a value-add. But that value-add comes in many different shapes and sizes. It couldn't – Have nothing to do with construction. It could just be a property management issue. So that's what we look for. In the future, we hope more of those get uncovered at the – Where we are or where we believe we are in the cycle are harder and harder to find. So it takes more and more patience to get them.

[00:21:14] WS: So a few more questions before we run out of time. What's been the hardest part of this syndication journey for you, Jered?

[00:21:20] JS: So I think for us, we are professional operators, not money raisers. So balancing that because we underwrite and market as if – When we started, it was all of our own money. So that's how we learned to put these deals together. So a lot of times, I'm more conservative than most syndication sponsors. So a specific example of that, that 10-year deal that I just mentioned that there's a nice value-add. It's pretty straightforward.

After three years, the value should be forced into this deal. It makes total sense to do a refinance. I mean, we will if the market allows it, but I don't know where the market will be in three years. I don't know where the debt markets will be. I don't know where the real estate markets will be. So we don't underwrite with a refinance event in there, because we want to make sure the investors coming in are comfortable if it doesn't work. I don't know what will happen in three years so I don't add it in.

So the challenge has been balancing being someone who raises money and having to sell the product of returns but also being a professional operator and realistic with our numbers. So often times, our projections of returns are lower than most people put out. But then if you have a sophisticated investor who looks at the underwriting of what we're using for vacancy rates in years one and two while we're repositioning or things like that, they see it, but it's a balancing act of having a product that people want to participate in itself but also not under promising. So that's been difficult for me, because I always seem to gravitate towards the conservative side.

[00:22:55] WS: Sounds like you've done pretty well though with their capital raising. But it's because of your record. I mean, you've built a good track record and you've been in the business for a good while now. So congratulations to you again for that. But how are you preparing for the potential downturn?

[00:23:08] JS: It all comes into – The number one thing would be debt structure. So debt structure also as well as business plan structure. So when you hear 10-year hold, a lot of times people think that's hard to raise money for a 10-year hold. Investors usually aren't getting on board to place their money for 10 years, because they would rather have it back sooner.

But the reason for that length of time is because we know one of our core values that we can add is efficient, quality operations of these properties to produce cash flow. So we structure the debt as well as the business plan to fall back on that core value if it's needed. So if in four years, five years, six years, whatever this –Maybe one year, we see a heavy downturn. We're structured in a way we can fall back on what we're best at. That's operating for cash flow. So we can ride through any kind of recession.

Then in addition to that, the market we choose is also very recession-friendly I should say. So we're not in the coastal markets or the southeast where you may see more volatility. We're in the Midwest where even in 2008 in C class apartments, we saw a vacancy rate of 8%. So we're not seeing these huge, huge swings. Could it come? Yes, but what we'll do is we'll fall back on what we're good at and ride it through.

[00:24:24] WS: So what's a way that you've recently improved your business so we can apply to ours?

[00:24:29] JS: So Juniper Square was a software that we went with. It was tough to slow down the cost of it, but it made a big difference in giving us – I don't if it's the right word, but institutional level feel to the investor. So a log on, everything is clean, portal-looking, as well as data security of when they're signing documents, participating in funds, being exchanged, things like that, wiring information. Doing that just over email is possible, but adding that software was something that helped us kind of take our business to a more professional level. So I would suggest if anyone can stomach the overhead of the software cost, it's a good addition to the operations of the raising money in a syndication business.

[00:25:15] WS: What's your best advice for caring for investors so they want to come back?

[00:25:18] JS: Don't forget about the comment I made before is this is little chunks of people's lives that they drain, sometimes big chunks. Share the story of my dad. He went to his corporate job for 30 years, traded his time, pieces of his life to earn that money to then entrust it with us and deploy it to execute on a business plan that we put forth.

My advice would be whether that's someone who has a hundred thousand dollars in the bank or a hundred million dollars in the bank, it's pieces of their life. So you need to take it to hold it to that standard. I know there's a lot of people out there who want to raise money and want to get into the syndication business. But you really have to ask, are you prepared for that high level of responsibility? So keeping that in front of mind is always important.

[00:26:06] WS: What's one thing that's contributed to your success?

[00:26:10] JS: I would say over the whole timeframe that we've talked about, the one thing that has contributed to my success is being able to think outside of the box. I didn't share it. So I was not a good student. I'm dyslexic, so reading and writing comprehension is not strong for me. But what it taught me was I have to find solutions that don't always fit the mold. So these value-add components that a lot of people miss, they seem to be more obvious to me. So I see things, I read between the lines well, and how I connect that to being a bad student is I would get – I even went to college, but I never bought a textbook. I never took notes, because it wasn't a good way for me to learn. But one time, a professor put out this huge study guide that – Or like end of the semester study guide that you had to complete and it was half of the semester's credits or something like that. Tons and tons of pages.

So I just emailed half of the class, "If you do the back half, I'll do the front half." Then I emailed the other half of the class, "If you do the –" Vice versa. Then I just took those and swapped them. So I exchange the value of – I gave everybody what I promised, but I was in the middle, picking up the slack and finding a solution, where I was like, "I can't understand the study guide. I don't know the solution, but I can figure out how to get it done." So I do that same thing. But within real estate is I find solutions to problems that otherwise sometimes don't seem to have a clear solution. So throughout the life of my career, it's been solving problems and seeing those solutions that are sometimes hard to find.

[00:27:40] WS: How do you like to give back?

[00:27:41] JS: I like to help other people out who are starting in. So I'll get on phone calls or meet with people because I never forget the challenges, not only that I deal with every single day but the beginning ones. Honestly, the beginning ones are harder because just every day is something you don't know how to do. So I'll get on calls and speak with people who are looking to invest not in my deals but just either as our own syndication sponsor, looking at other deals and just helping pass back the knowledge that 10 years of running in obstacles has taught me. So that's my number one way that I like to give back.

[00:28:17] WS: Before we have to go, tell the listeners how they get in touch with you.

[00:28:20] JS: Best way is going to be through our website. So snscapitalgorup.com, that's three letters like Sam, Nancy, Sam, capitalgroup.com. There's just a button there to reach out, and those emails will get directed to me.

[00:28:34] WS: Thank you, Jered.

[00:28:36] JS: You're welcome. Thank you for having me. I appreciate it.

[END OF INTERVIEW]

[00:28:39] 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. Lastly, I want to keep you updated. So head over to lifebridgecapital.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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