EPISODE 368

[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 Jeremy Roll. Thanks for being on the show again Jeremy.

[0:00:32.1] JR: Whitney, no problem, thanks again for having me, I really appreciate it.

[0:00:35.5] WS: I'm honored to have you on the show Jeremy, somebody that's as knowledgeable as you and willing to share, I'm very grateful for that and I hope the listeners will go back and listen to numerous shows where we've done interviews with Jeremy and he's covered many topics on that from the past investor standpoint that it doesn't matter if you're the past investor or if you're the operator, you need to listen to these shows and it's 155, 302, 303, 340 and now, this show.

I think you know; we've got some more lined up. I hope you are enjoying them and learning a lot but a little about Jeremy, started investing in real estate and businesses in 2002, left the corporate world in 2007 to become a full time passive cash flow investor. He's currently an investor in more than 70 opportunities across more than one billion dollars worth of real estate and business assets. He's the founder and president of Roll Investment Group.

Jeremy manages a group of over 1,000 investors who seek passive, managed cash flowing investments in real estate and businesses. He's also the cofounder of For Investors, By

Investors known as L5BI. A non-profit organization that was launched in 2007 with the goal of facilitating networking and learning them on real estate investors in the strict no sales pitch environment. L5BI is now the largest group of public real estate investor meetings in California with over 27,000 members.

Jeremy, thank you again so much for your time and this is a very interesting topic today and I know every listener on both sides of the business here. Whether you're passive or active are going to enjoy this.

[0:02:04.7] JR: Great, yeah. I'm looking forward to it. I honestly just hope that it's helpful for whoever is listening.

[0:02:08.4] WS: Yeah. I know it will be, it's going to be helpful for me as well. I enjoy this, you know? I get to ask you this questions and just, we're always striving to improve our business and such a big part of this business is the investor relation piece. I mean, it's so crucial, it's so important, we put so much emphasis on it.

It's like we're growing our family all the time, right? I mean, we're trying to treat these investors like family and so you're going to help us to understand how that's happened, how you like to see that and how you like to see and operators work with you and communicate and things like that.

Why don't we get started and we'll talk about maybe some of the reporting investors do or we can even back up to other things that you know, to them things that maybe operators have done that you haven't liked or we can highlight a few of those things so we can dive in to some details.

[0:02:53.1] JR: Yeah, I mean, I think the good place to start and look, I'm going to make some generalizations on this podcast, okay? Again, this observations for me over 17 years, I'm not a financial advisor, investment advisor or an accountant or attorney or anything like that. Just my perspective as an investor.

Where I think I'll start off with is that — as an investor, I think it's important to keep in mind that when you're dealing with an operator who responds to what you want to invest in, what is it that they like to focus on the most? Think about it, they like to acquire a property and operate it well and execute on their business plan. That's what they like to do.

What I found is that in some cases and not all, that the investors as important as they are to their business, right? Because they can't acquire these properties without investors. The least favored part that they have to deal with often. Meaning that you know, we as an investor are distracting the sponsor operator from being able to do what they like which is acquire the property, any time they're putting into it, to us, they're not acquiring the property, operating and executing on the business plan, right?

Understand that even though we're in a very important piece of that business, there are occasions where we're like a distraction, they don't like dealing with us, that's just a fact of life and in some cases, I like to sub people. I'd rather make a bet on the best operator with the worst documents than the worst operator with the best documents. Okay? That took me a really long time to get comfortable with because I came from a corporate world. I started investing in these types of opportunities in 2002, I was in the corporate world, worked for Disney headquarters at that time.

I was used to being buttoned up, PowerPoints had to look right for presentations to whatever executive or other, you know, client we're pitching to. I have a Wharton MBA, used to being buttoned up, you know? In that respect and so what I learned very quickly here is that my main focus is who am I making a bet on and sometimes the documents, the content in the documents are very important but how they're presented et cetera.

What I would tell people is, we are an important piece of a sponsor's business and it's not always the case that they put as much attention on that as they should maybe but at the end of the day, when an opportunity is done, you know, in my opinion, most important thing is was it executed well, okay?

The next most important thing is, if you feel like you've got a certain level of reporting and were you able to communicate a certain way with ease with an operator. What's so interesting about this whole topic is that I have been in multiple opportunities with multiple sponsors where we perform really, really well, over perform by a lot.

A lot of the investors including myself would never invest with that sponsor again just because of the communication aspect and the investors relations aspect which is pretty amazing when you think about it. So it is an important piece but obviously, again, you’re not going to want to reinvest with someone who has very poor performance but respond to your emails in 10 minutes, right? That’s not helpful either.

I guess my point is, try to keep an open mind as an investor and focus on try to not be perfectly critical because sometimes if you’re overly critical about communication or what you're getting in reporting then you may miss out on investing with some really good sponsors who maybe just aren’t the best communicators or maybe are preferring to put some of their time into operating the property and you’re going to miss out.

Now, I am not a sponsor so I’m not trying to defend sponsors but I’m just pointing out what I’ve noticed over time and where maybe the priorities to land and again, everyone’s going to have their own line, it’s not okay to have a sponsor where you’re having a horrible investor relations experience and hopefully made that clear but at the same time, I’d rather have someone who is like performing at 100% on execution and maybe 80 or 70% on investor relations, 20% is probably not okay, right?

But I’d rather have it that way than have them be 100% on investor relations and 80 or 70% on execution which is still probably okay but still not optimal. Those are just some high level thoughts that maybe some people don’t think about because its’ very easy to rush into the “judging," what you’re getting in reporting. Are you getting every single piece of data you want as an investor? Where’s the compromise there? I just see a lot of things and I see a lot of feedback sometimes and sometimes I feel like the investors are not focused on the right thing to get that very positive end result.

I mean, we can talk about the sponsors too and I could definitely share some information about my opinion about that but I want to start with that because I do find that that happens a little more frequently than you might expect.

[0:07:11.5] WS: It's kind of seeing the shiny object, right? We see this pretty email and we think this has got to be a great investment but there are property diligence maybe on the operator or the property itself, the asset class, all those things but we see this pretty – it's laid out really nice.

[0:07:25.1] JR: Yes, but again, couldn't agree with you more on that, again, having the worst documents with the best operator versus the best documents with the worst operator, right? At the same time though, I would say that you know, if you're an investor and you're getting 75% of what you like to see in a quarterly report but not 100% and the executions going really well. Try to do your best to recognize that seeking the 100% may be challenging because sometimes the operators are more focused on executing than on the investors.

And if you get to the point where you're willing to compromises on that, you may not miss out on some really good opportunities because of that because I do see people miss out on the situations and I think it's unfortunate.

[0:08:03.3] WS: I would say speak up as well as the passive investor. You know, you've invested with so many operators like you've seen how so many different people do these things. If you approach me and said, Whitney, you know, I like what you're doing, I like this report but here's what I've seen in the past that I really like to see. I'm going to do my best to have that in that next report and give you that information right then.

[0:08:22.4] JR: Right, except, it's important to recognize. Look, if you invest $50,000 in an opportunity where they're raising three or five million dollars and you're a very small percentage, it's also important to understand that you really have not much leverage, I mean, just to be totally honest, right?

You know, I would think that if I'm an investor, trying to ruffle feathers and I invest $50,000 and I say, I love to see your quarterly reporting to include this, this and this. Well, what if I'm just the only person who wants to see it like that? That may not be reasonable, right? You may be open minded to hearing it but then, what happens if you – you know, as the operator, go and make those changes and then the other 99 people are saying well, why'd you do that?

I want to see it the other way, right? It's important to recognize that you may have certain needs and that's why I'm going back to like, you may get 75% of what you want and just try to do your best to compromise because if you don't, then you may lose the opportunity to invest with good operators as a result but it's honestly not realistic, you got to be honest with yourself, understand, it's not realistic to get 100% of what you want some of the time. Because you're not going to have the leverage and I just – try to balance both sides and be realistic about the conversation.

Though, I think getting input is good but the problem comes into play where you give input and the next quarterly report comes around, you give input again, I've seen this happen and then you know, same input over and over, you're not getting a change and then that investor's getting really frustrated because they're not getting the change without thinking about the fact, maybe they're the only investor asking for it and you know, from a sponsor's perspective, I'm going to leave well enough alone with no one else is complaining about this point.

Next thing you know, this person has tried five, six times, has had a really good execution experience and then decides never to invest with that sponsor again, that's a kind of scenario where I'm saying, if you can get yourself to 75 or 80%. Look, you got to get yourself to a certain comfort level but if you could try to help yourself in dealing with that situation, you may do better in the long term as an investor versus maybe you know, kind of like putting yourself in a position where you're not investing with a good sponsor as a result of that. I hope I'm making sense but I've seen these stuff happen before.

[0:10:25.7] WS: It's good to see the bigger picture too and how much we should expect on the reporting side and communication side versus you know, how the asset's performing and how the operator's operating the property. That's a great take and from your perspective. How about, you know, let's dive into some of that communication and some of the reporting and what you like to see?

[0:10:43.8] JR: Yeah, I'm going to give you my take on what I like to see. It's very subjective and I'm going to bring up probably the most common, what I see is the most common difference of opinion that some investors have over an item. I'm actually curious to get your opinion on this because it can make a good point, it's very subjective and everyone's going to have it own take.

When I invest with somebody and I know, done a list of diligence and all this work upfront and then going forward, I'm monitoring things by quarterly check on a core payment and a quarterly report, quarterly distribution in terms of – I'm a lower passive cash flow investor and that's what I'm looking for, that cash flow.

For me, the number one metric is what was the projection and what am I getting, right? We talked about this in another show previous that the way that I measure, when the things are going okay is with soon as I invest in something, I have a spreadsheet and I put the projected cash flow each quarter, going out 10 years because I typically invest in a 10-year opportunity most commonly and then I will check that quarterly distribution versus the payment I received.

If it's of more than 20%, I start to look into it further, if it's off less than 20% but I'm pretty comfortable with it because you know, you can't expect it to be perfect, it's projections. I'll clearly, the quarterly report either way and get to know what's going on but I won't dig into it unless it's really starting to burry from what it's supposed to be.

Now, that means that I focus on – am I hitting the cash flow as projected because the cash flow set my expectations, that's my opinion as far as how my expectations were set. Now, some investors actually and some operators thinks that it's actually more relevant to be looking at the annual budgeted forecast and projections that they're actually updated each year that are more real time by a sponsor than the previous projections, right? I'm going to give you a really good example and I think it's reasonable.

Even though I think my argument is still reasonable. I invest across many different asset classes. One of them being a retail strip centers, okay? You'll see why this is a really easy example to understand. Is it reasonable to assume and expect that a projected cash flow payment, nine years from now, in a smaller retail strip center where the lease is maybe one, three, five years in length, sometimes longer is going to be within that range, the further you go out? It's less and less predictable, the further you go out and the nature of retail strip centers is that it's not as predictable as many other asset classes. So the answer is probably not right?

You know people close, tenants change, some tenants don't renew. Society has different demands on retail and so you know, operators best guess and as far as being concerned in their projections nine years out, made you reasonable at year one at time zero when you invest but is it really reasonable to compare it nine years later. That is questionable, right?

What might be more reasonable is to take a look at what's gone on over the center, over the course of the past nine years and see what's budgeted for that year that was adjusted each year real time for what has occured, right? So when tenant X left in year four and tenant Y left in year six now we have started to adjust what the projection should be. So is it more reasonable to judge the operator for that year's performance based on the profile of what they went to do in January 1st.

And what they were – the hand they were dealt with on December 31st or is it still okay to have that expectation that was set from nine years ago. Well, I like to think that because I live off the cash flow and the cash flow is so critical to me, I still would go back and look at what was projected because to some extent if there is a lot of variability it means it may not be the right asset class to me or may not have been managed well.

There is a big difference. So part of what I look at that is why I am so focused on the cash flow because that cash flow may tell me well this hasn't really been managed well overtime and that is why we're at this point right now and I don't mean manage well this year. I mean manage well overall in the bigger picture. So the biggest difference of opinion that I've seen and what to expect for reporting is that some people think it is more relevant for investors to have a view of the budget.

Versus actual as quarterly for a specific year and other people think that other people tend to prefer to be able to look back at the cash flow versus expectations that were set in the beginning. I prefer to look at the cash flow. I completely understand the perspective of the budget side. I get a little frustrated when the views on a budget perspective but then I have this conversation with operators all the time that I try to get them to switch to cash flow.

But a lot of them are like, "Well look it is not fair that you're judging me on the projection for nine years ago at this retail strip center," and you know maybe that is reasonable. I would argue. So I am sorry I went on but I think it is the most obvious topic on the investor relation side that I hear commonly, especially from investors. Have you ever heard about this and what is your take on this?

[0:15:17.9] WS: I have not heard many people talk about it but it is an obvious – it should be discussed like what are you expecting if you have a projection for nine years from now, should I expect you to hold me to that? Well as an operator, I feel like I should be held to it. You know I am going to do my best to meet those projections even if it is nine years. I understand so many things change through that time and we are going to operate this properties the best that we possibly can.

You know to meet those projections but I mean I feel like through our communication too, I mean I am going to be communicating with you to say we are doing our best to meet that same projection even if it was eight or nine years ago.

[0:15:53.1] JR: But here is another interesting thought. So the economy is cyclical so price per square foot on whatever asset class you are dealing with as far as set client demand can change. I only ever seen one operator ever build in an actual estimated timeline for a downturn where they actually decreased their rents over a certain period and then brought them back up and their best guess to whether recession was going to happen.

Everyone else does like across the board average annualized increase, which is probably reasonable because it is average right? So in some years are below, some years are above but what happens when you invest in an asset that was meant to be held for 10 years and in year three there is a downturn? Now, if you go back to your projections all of a sudden you are going to be off 20% possibly depending on how it was projected that doesn't mean that the operator is necessarily performing badly.

In fact they could be doing a really, really good job during that downturn, all things considered relative to like the actual surrounding economy even performance of like properties that are in the area but then if you are going back and judging me against the cash flow that is a tough call. Is that really fair, right? And so maybe you can look at it and say, "Look after 10 years and I average the cash flows out that is a fair way to judge an operator."

But maybe in the micro of it each year, maybe the budget perspective is better than we were talking about. I am not sure. I just know that when I go in, I go with a minimum cash flow criteria. I am dependent of the cash flow to live off of and so I tend to be a little bit more focused on the cash flow but I can definitely see both sides of the coin with this.

[0:17:19.8] WS: So investing in so many opportunities like you have and different operators, what has that conversation been like you know, I mean overall or had you had that conversation numerous times?

[0:17:30.3] JR: Yeah I mean literally, I remember once that the reporting was so bad as far as like not really sharing much detail at all that I actually grouped together with a bunch of investors investing in the opportunity and I had conference calls on the operator on recommending what to put in and actually they did eventually remembered — because there enough of us that actually had the same opinion. So we had the same leverage and start to have those conversations.

I've had numerous conversations with cash flows versus budgeted for sure and often, the operator tends to have a very specific view. They make their reports like that because they have that opinion about whether cash flow or predicted cash flow or budget is a better view and they don't normally change it because they have a very specific opinion about it which is fine. I think the most important thing to understand and one of the best things you can do for yourself as an investor.

Which a lot of investors do not do is when you are considering an opportunity, ask the operator to send you an example of a quarterly report that they had sent out for previous opportunity. Tell them they can redact all of the information that they consider confidential — block it out but take a look at what they are report and just take a look at their template because honestly if you invest in somebody and then you are getting these reports and you are not happy with them.

I mean to an extent you are the one that made the error in investing with somebody that reports a certain way because you could have taken a step of knowing what the reporting is like and decide if that is going to meet your criteria or not and that happens a lot I have to say. I always ask for sample reports to understand what to expect. You have to make sure it is going to hit the minimum because usually a sponsor is working off a template and they are going to use that across multiple properties.

And they're going to use that overtime. So as an investor the number one suggestion that I have is to always ask for that sample quarterly report from the past. I am not telling you to look for this. You got to understand how another property performed. It is just to understand the level of detail you're going to receive and if you have a problem with that maybe ask them the questions about whether they have ever include something else but don't move forward if you are really not comfortable with it. It is not worth it.

[0:19:23.0] WS: Great advice. So I have never been asked that from investors.

[0:19:27.7] JR: Never?

[0:19:28.5] WS: I have never been asked for like a previous report.

[0:19:31.3] JR: That blows my mind. I mean I am actually shocked because you have a lot of investors and —

[0:19:35.2] WS: I am glad you brought that up. I mean for that point, I mean I think that is great advice.

[0:19:39.7] JR: Yeah, I really don't understand how you have never been asked that because it seems so obvious because I think people aren't being fair to you if they come in and invest with you and they haven't asked you to look at your report and then they're complaining about the report after the fact. They could have just taken a look at it and then decided not to invest you know? Not you specifically but whoever. So yeah that is actually pretty amazing.

You know the other thing that I see investors often don't do that kills me is background checks and the majority of investors that I talk do not do background checks — it's critical. It saved me a number of times. I know it is not today's topic but that is another thing that this has not done merely as much as I would love to see too for people helping themselves you know?

[0:20:18.4] WS: No, great advice. I know we did cover that on another show but it is definitely worth talking about again or bringing up but yeah, I want to go back to that just for a second but you are asking that operator before you have invested with them for an example report. Anything else regarding this communication subject, we are going to run out time in just a couple of minutes and we would have to follow up and finish this conversation because it is so important.

But anything else as far as the things you could ask for to just understand how this operator is going to communicate in the future before you have invested.

[0:20:47.4] JR: Yes, so I talk a lot about in general my philosophy of trying to read between the lines as to whether this is someone you want to make a bet on and when you could do that on the communication side is one of the benefits you get from asking a lot of questions during due diligence that you actually see how somebody responds. How quickly do they respond? How thorough are their responses, are they answering all your questions the first time or do you have to re-ask half the questions again?

Are they able to get on the phone with you and actually answer some questions? Everybody is different, so I think testing that to an extent, which you would do if you do a lot of thorough due diligence is going to give you an idea. You are going to start and that is a piece of the puzzle that you need to consider. It is a reading between the lines, this person lining up with the type of communication and the response rate and everything else that I would hope to get and if not, can I deal with that level of frustration or not?

Because again, going back to this, I would say that if you're going to get overly frustrated with someone even if they are performing well that is not okay because even they are performing well if their communication is 20% that is not the right fit for you. So that is something besides looking at the quarterly reports up front as an example that I think everybody should be doing and are walking away from if it is really the wrong fit for them.

[0:21:57.3] WS: Nice, Jeremy unfortunately we are going to be out of time but we've barely skimmed the surface. So you know we're just there really — there are so many other questions here or topics that I know the listeners have and I want us to be able to discuss from your point of view and so we can all improve that communication process that's so important. I know I put a lot of time and thought into those emails in how quickly we're responding and all of those things.

So I look forward to following up with this conversation and continuing that and so you know, tell the listeners how they can get in touch with you?

[0:22:27.0] JR: Yeah sure, absolutely and I definitely look forward to getting it out there. I know it is a lot that we can discuss. So the best way to reach me and don't hesitate to reach out to me if there is any way I can help you honestly, my email is jroll@rollinvestments.com. So jroll@rollinvestments.com.

[0:22:45.3] WS: Awesome, thank you so much Jeremy.

[END OF INTERVIEW]

[0:22:47.6] 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 are 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]

[0:23:28.6] 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.

[END]