EPISODE 390

[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 Ken Sheppard. Thanks for being on the show, Ken.

[00:00:33] KS: You're welcome, and welcome to you as well.

[00:00:36] WS: Thank you. Just from getting to talk to you a little bit, I know you're going to bring a lot of value to these listeners. You have lots of expertise and experience that we need to learn from. So, I appreciate your time and in being willing to share.

But a little about Ken. He's been in creative financing business where their core asset is generally real estate, entertainment, communication of any kind, energy, sports, tax credit, or other asset component. He created a strategic partnership where he can act as a principal note receiver of debt, cash flow with a $1 million fund. Asset in funding the entire capital stack and structure strategic partnerships. So, through a licensed escrow title party, he provided a soft proof of funds for up to $500 million. I hope I said that right. $500 million, Ken.

So, Ken, thank you so much again. I'd love to hear a little more about your story. I know the listeners would like to get to know you a little bit if they haven't heard of you before, and then let's dive in.

[00:01:32] KS: Good. So, the fund is actually a hundred million I think that you mentioned before. The 500 million proof of funds, we did do that. We did this stock proof of funds through a lawyer. Not a bank statement. We found that lawyers' letters mean as much as any bank statement for the purpose of giving people capital, evidence, and comfort.

I've been involved in finance since the early '70s. I started in the entertainment industry, William Morris, CBS/Fox, Warner Bros. Eventually, I got into producing, executive producing. Then where I really hit our stride was buying distribution contracts, which are act kind of like purchase orders, and funding those, producing those, and then turning them in the studio, and getting the monies back. It came – We did really well with that.

Then the early '90s, we shifted into commercial mortgage-backed securities with folks there like some of the biggest hedge funds and firms on Wall Street. I put a bunch capital together for them and started training on their brand, as well as ours through syndications. We still do that to this day. We had to restructure quite a bit of that in the early 2000s due to the market change. Then we started doing a lot of stuff in entertainment again. That was structured, securitized like a loan against a deferred compensation for an NBA basketball player and things like that.

We closed close to 200 million in deals. That's on our website. I think there's 180 million up there and a lot in process that's into the 500 million area or more. That's just moving through our machinery. And we do things throughout the capital stack, as you said, that equity mezzanine, structure financings, loans, partners, partnerships, whatever makes sense to help four things happen: create jobs, feed families, fund companies, create family legacy. Out of all those things comes revenue. I think if you think revenue first, it's not as a productive way to look at life.

[00:03:20] WS: No. That's very interesting. You've had an amazing career, a long career in this business. I'm looking forward to this conversation. Just before the show, we were talking about just the ability to raise equity or find equity, find capital. You had some unique ways of doing that. Just you started sharing. That's impressive. You were elaborating on how a debt is not as challenging if we have the capital. So, I'd love for you to elaborate on that, and then let us dive into some of your techniques in doing that.

[00:03:49] KS: Well, everybody – The biggest hole in the industry seems to be the equity.

People come to us all the time. They say, “We have the debt. We want you to do the equity.” We’re only going to do the equity if we do the debt. I’m not going to be the equity guy and let them have the easy piece. It doesn't make sense. You’re handing a check for how many of millions to a broker for a deal that you raise the equity for that drove their debt. So we want to do the debt or release as long as we’re equal to or better than what's on the table, which we always are, because we know the marketplace pretty well after doing it this many years and have a lot of relationships all over the place, specifically in the family office space, high-net-worth, people like that.

I always try and come up with ways that other people don't think of, to locate things. Capital is found where wealthy people go. Right? When I was younger, I made it a practice of going to the more expensive golf courses that I could find, making friends with the bartender, if I could get in, if it wasn't membership-driven, and then having them tell me who's doing what, why, when, and where. And say, “Look. If I put some together, can I pay you a referral fee?” Of course, they say yes. Then as long as it’s legal, which it generally is, as long as they can clear it. And we’ve done a number of deals through that mechanism of meeting people through other people.

Networking is I think really important. So, golf courses, high-end golf courses as best as you can get, high-end conferences about real estate investment, things of that nature that occur all over this country. You can certainly find conferences in any area of the country throughout the year. I think networking on the Internet, using LinkedIn and places like that is really powerful. And then we have a radio show, which drives a lot of traffic back to us, which is about making money in real estate when you have no money, and I’ll talk more about that when you’re open to hearing more.

[00:05:42] WS: Yeah. We’re always open to hearing more about that. But a little about what you said there, finding capital where wealthy people go. You mentioned even before we talked like just going if there’s a conference there that maybe you're not even a part of, but you’re sitting there at the bar. You’re sitting there, and we were talking about how if you’re dressed the part and you know how to talk some of the talk, people will listen. Or striking up that conversation and starting that networking, starting that relationship right there and being where these people are. Can you elaborate on that? Then we'll move on your other point.

[00:06:16] KS: Of course. So, one of the things I do and still to this day when I have the time is go to conferences and look for the people with the badges that are at those conferences that are directly tied into what we do in real estate and investment finance. I think you do have to look the part. Most of those people are very nicely dressed in suits or pretty gals in dresses and things like that.

But I just think you have to present well. I mean, this is an environment like going to a high-level conference. I think if you don't have the right kind clothes, find somebody that does. They can lend it to you for an hour. Put them on, go sit down there, and just sit at the bar. You can order a soda for a couple of dollars. You can order water even sometimes, and just strike up a conversation with people that are sitting at the bar, say, or something about them like if you like the color of their shirt, whatever it might be, something to break the ice, I think that's a really good way to start.

And remember, like I said to you before, the most important thing is capital is looking for the places to go way more than people that are looking for capital that – What I'm saying – Let me say it in a different way. The people looking for the capital, there is not anywhere near as many of them as there are the people that are looking to place the capital. Capital is in the trillions. You just have to find it. If you hit the criteria of what they want to do, they write the checks.

[00:07:40] WS: That's a great point that whichever listener would just think about for a minute what Ken just said that it's in the trillions, and there's a lot more capital or people with capital looking for places to invest and put it than people that are looking for it.

I hear all the time – I get calls every weekend numerous times of how do we get started raising capital, how do we meet those investors, how does that – How do we get started doing that? It seems so difficult in the very beginning. But it's awesome to hear that statement you just made.

[00:08:10] KS: Sure. Thank you.

[00:08:11] WS: All right. So, moving forward, get us started in what you just mentioned a minute ago.

[00:08:15] KS: Well, I was just saying that when you – Well, we're talking about when you go to these kinds of places, just dress the part. If you go into a golf course, you don't have to wear a suit. You can just dress in a polo shirt and slacks. If you go into a conference and everybody is dressed in a suit and tie, which most of the time they're going to be because they're lawyers and accountants and investment bankers and the people from Wall Street and such like that, they're going to be dressed the way I'm dressed now. And you're going to find that if you dressed that way, they'll respond to you.

Like I said, you can always find something easy to break the ice on. The color of somebody's shirt, the color of a lady's dress. Something that's simple that kind of gets them saying, "Oh, wow! That's interesting that you –" I have people that come up to me sometimes. Just when I'm sitting in a place and I'm on a conference and I'm on the other side, I've had people go up to me and say, "That's a really nice this or really nice that," or whatever and, "I know you from somebody else." Always make sure you have plenty of business cards as well. I think those are really important. They could be the little ones. You can put a package together for 500 or for like $10 or something.

[00:09:23] WS: I know some people that are listening are saying, "Well, can I – I don't have any experience, and so I'm a little bit nervous about getting into that conversation." I mean, I remember when I first started having some of those conversations like you. You're wondering, "What are we going to talk about when they say, 'Well, tell me about the deals you've done.'" If they haven't done one yet, what do you advise when someone's getting started just in some of those first conversations and they're a little nervous about getting that question about, "Well, tell me about your track record or tell me whatever you've done," but they haven't really done a large deal yet or syndicated a deal anyway.

[00:09:54] KS: Sure. So, there is lots and lots of people that have already done that. That if you go to them and you speak to them and say, "Look. I'm going to be going here and there and otherwise. Would you like to be a part of that package?" Then all of a sudden, you've got brand with you. You can do that at lots of investment banks, lots of Wall Street firms, smaller firms as well.

So, when you go into these environments, you say, "I have relationships with people that are part of my investment group." You can have that at a very lose term investment. I have people that I'm working on that have done a lot of business. I'm happy to introduce you to them if you'd like me to. Of course, you want an NCND [inaudible 00:10:34] non-circumvention nondisclosure agreement to do that, which is really simple to do. But it's a very easy thing to do as you know.

But you want to do that if you're going to put them together, because you want to protect the fact that you're going to get compensated if you put them together, because you got two very sophisticated people and you're not so sophisticated. You might find yourself in not such a great position in that, and you might be unhappy.

So, in order to avoid that, you do the NCND, non-circ, nondisclosure agreement. You do it always with the people who are receiving the capital. So, if nobody is receiving the capital in this situation, I would try and get it from the company that you're bringing to the party that wants to be a part of the brand that you're building. And I've done that a lot.

[00:11:18] WS: Well, maybe you could talk about the branding a little better or what that should look like when we're trying to raise capital. Or can you speak to the branding side of the business?

[00:11:26] KS: Yes, sure. Well, brand is always about recognition and value, and that comes from just people knowing who you are. Getting on platforms like LinkedIn where we're tied in with like 19,000 different people. Now, it doesn't mean you're going to do business with all of them. But if your name keeps appearing all over LinkedIn, people are going to say, "Who's this guy on LinkedIn?" Then they may come and look at your LinkedIn, and then they would give you a message that they want to talk to you. I think that's much more appropriate than reaching out to people that you don't know on LinkedIn and trying to build those relationships, because I just haven't found that to be productive.

But the other way where you brand yourself is really important. I think that's all about what's the name of your company. Your vision statement is really important, what you're planning. Like I say, create jobs, feed families, fund companies, create family legacy in order to create revenue and wealth. That rings true with everybody at every layer of society from the highest to the not so high everywhere in the world, because that's the whole thing that we're all trying to do is to help each other do better.

[00:12:32] WS: So, the LinkedIn – You're telling us about LinkedIn. So, you're saying it's better to say we're connected to those people and then just seeing us every day. Then obviously, them reaching out to us and starting the conversation, as opposed to us reaching out and making that first attempt.

[00:12:48] KS: Right. There's a lot of places where you can send messages to people that you don't know, but I don't recommend that unless you really have some sort of tie to them some way. I would say just get yourself set up on LinkedIn. Put down what your credentials are. If you can tie in with a company like I spoke to about earlier, put their credentials down on your page as your colleagues. They're not necessarily your partners. They're just your colleagues. And that would give you that much more branding than you have yourself. It's just building the team.

[00:13:20] WS: What other places have you maybe gone to or where you found investors that maybe we haven't thought of or maybe like the golf clubs, the country clubs, things like that or those high-end hotels? Any other places that maybe we haven't thought of that you've been successful over the years to meet these people?

[00:13:37] KS: Yacht clubs.

[00:13:38] WS: Yacht clubs.

[00:13:39] KS: Is one and they're pretty much everywhere, even if they have winter, they have yacht clubs all over the country and the world. Just places where wealthy people go that they have a tendency to be using as a place to unwind. That would be something I would say for sure.

[00:13:54] WS: What's been the hardest part of the capital raising process for you over the years, or maybe if you go back many years ago to even currently?

[00:14:03] KS: Yeah. Well, obviously, the hardest part of the process is breaking the ice and going forward. So maybe you start with a small deal. I tell people all the time, "Could you do a hotel as your first deal?" Yeah. Is it going to take you a long time? Yeah. Are you better off learning the process with maybe a small single-family home that you buy for – That's worth, I don't know, a hundred fixed up, and you can buy for 40? It takes 10 to fix it up, and now you have 50,000 in equity. You do that 10 times. You have a half a million in that equity.

And I think that that's really a good place to start. The investors who were doing the fix and flip investing like us, which we do, almost every time we do ourselves or we have partners to deal with us, just like I was saying before. We run a pretty substantial fund and all that kind of good stuff.

But it's more important I think when you're starting out, the people that will be funding you will understand that you're starting out. They don't mind the fact that you're starting out. When you try and go do a $10 million, 20, 30, 50 million dollar deal initially, more than likely somebody's going to see that you're not that experienced and you're going to get challenged on that as to what are you trying to do. If you don't have the capital and you don't have the experience and you don't have the know-how, why are we here?

Now, maybe you have a deal that makes sense that it's just way under market or something. But I think that's highly unlikely to find as a new person. I believe as a new person, you start where the new people start, which is buying a house very inexpensively, fixing it up, making sure you stay at less than 60% of the after-repaired value, including purchase price and repairs. If you do that, you will have a 40% margin. You can always sell the contract. You can always flip the house. You can keep it, rent it, refinance it, all kinds of stuff like. And then eventually, you move into the 2-unit, 4-unit, 8-unit, 50-unit hotel, whatever.

But it's the same process no matter what the size of the deal. So why not start where it's simple and where people will embrace you? They mind that you're doing something early in your career because they're used to working with people early in their career.

[00:16:15] WS: I like the statement that you made, and I may modify it a little bit. Correct me if I'm wrong, but it was like people don't mind if you're just starting out. But it's like as long as the deal you're presenting matches your experience.

[00:16:26] KS: Exactly. And when you go to people for capital, when you go to somebody for fix and flip funding, make sure you either own the property or somebody with you owns the property, or you have a contract to purchase the property with the seller. The reason I say that, one-page form for a contract of purchase with the seller. I just wrote an offer the other day for 750,000 on a building worth two million. I took five minutes to write down a letter of intent on my computer, and I sent it over, and they submitted it. Because it was written the right way. But even when you're doing a single-family, you can do it on a one-page form. Same form whether I'm buying something for a hundred million or a hundred thousand. Same form.

But the point is you want to have it under contract or you own it. The reason for that is that if you don't have that and you go out and get the financing and you can't get the property you [inaudible 00:17:16], you'll be disappointed. You won't be able to close. Maybe the seller changed their mind or whatever. And the lender won't be happy at all, because you didn't have the ability to finish what you started with them.

So, always make sure you have the things in process, contract or ownership, before you make a move. Make sure you're 60% or less, including repairs and purchase price against the after-repaired value. So, you always have that margin, and you should be able to get started. I've seen people get started that were 15.

[00:17:49] WS: So, Ken, how do you prepare for this potential downturn everybody's talking about?

[00:17:55] KS: Well, we always operate much better in a downturn economy than an upside economy, because there's a lot more opportunity to buy. There's always going to be people that want to sell much more than that kind of economy. You'll get better discounts, and there will always be people that need a place to live, need to buy a business, need to move in an apartment, whatever. Those will always continue. Businesses will always thrive at some point. Some won't. Some will.

But for us, it's actually better when the economy's upside down. When it's right-side up and all the appreciation happens, we still sit on the assets. I don't believe a lot and I used to flip a lot of stuff and I still do some time. But I really believe in the buy-and-hold process, because that's how you build wealth, not by flipping property. Flipping property pays your bills, but then you're on a hamster wheel. You're constantly having to do one after the other after the other. When you find something that's large enough or even a single-family house that you can keep for a rental, it’s income every month, as long as you manage it properly.

[00:18:55] WS: When you say buy and hold, do you mean like 20 years or for a lifetime, or is five years buy and hold?

[00:19:01] KS: Lifetime and into the next lifetimes, because there's only so much real estate that’s going to continue to go up in value. The United States is one of the most, if not the most, attractive place in the world to live. People are coming in from all over the world. They’re pushing the prices up in a lot of different reasons, for a lot of different reasons. But at the end of the day, you know that if you buy something, it’s not easy to find. People can say, “Oh! I can find 50 deals and 100 deals.” Maybe you can.

To me, and I’ve been this in a long time like 40 years or so, I don't think it's that easy to find the right kind of a deal. I think you have to look and look and write and write. You have to write offers on all kinds of things at ridiculously low prices. And if people don't respond, don't worry about it. Move on to the next one. If they do respond, then you have the conversation with them. Even, if they don’t respond now, they may respond back in six months.

[00:19:54] WS: Somehow, you knew what I was [inaudible 00:19:55] to ask you, what I was going to ask. How are you increasing deal flow, if you want to elaborate anymore on that?

[00:20:02] KS: Well, we have a team of people that we've given instructions as to the kind of things we want to buy. We have a VA team in the Philippines that writes a lot of offers on things. We feed them to write offers on. It's all a one-page form. It takes five minutes to write. It literally takes five minutes to write, and it takes a click in your email mouse. Once you scan it into your computer or put it into your computer some way to send it.

The technology today is so much better than it was when I started. I started when there were faxes, and there was pagers that you wear on your – That had nothing but a phone number. I mean, I came from the early ‘70s into the ‘80s, working on this stuff and then into the technology we have today, which is so much more powerful. You can reach people all over the world.

There's also some platforms. DealStream is a platform we use. Again, free. You could post up there. You could post anything you want. They clear it, of course, but you can post anything you want with no charge. I always look for things that don't want to feed from you. If you want to pay something to upgrade, you have that right. But why not have something that's initially no cost to get started with it?

So,I like DealStream, and I like LinkedIn. Those are the two that we have a tendency to link. There are a number of others, but a lot of them are membership-driven and you can't do anything and even post those sites unless you pay a fee.

With DealStream, you have to pay a fee to contact a lot of the sellers. Not always but you can post without a cost, because they need that for the people that are looking for the deals that are on DealStream as an example.

[00:21:35] WS: How many offers is this team writing, say, on a weekly or monthly basis?

[00:21:40] KS: We probably write 2 to 300 offers a week, because you don't know what's going to happen, and that builds your network, and then people may call you. They may not call you about that deal, but they'll call you about another deal. Like I said, when people come to me and say, “I want you to write on this 18-page form,” I say, “Look. Let me send you this one-page letter of intent to get to your client. If your client likes it, we'll write up a long form. But let's not waste time in a long form unless we know there's interest from your client in the first place.”

[00:22:08] WS: I know some people are wondering. How do you train somebody in the Philippines to write offers? How do you trust them enough to do that?

[00:22:15] KS: Well, first of all, they're all subject to me. They're subject to any and all conditions precedent that we need as a buyer, which gives us the complete [inaudible 00:22:22]. So, no matter what they write, we can't have a problem. We have a 30-day minimum contingency period on large deals. We have a 15-day contingency on smaller deals. So, there's always time to work something out. If it doesn't work, you can get out for any reason at all.

I’ve seen people and I have put up deposits that are not cash. We put up shoes. We put up an inventory issuance, once. We put up a promissory note. We’ve done a lot of things, because as long as you put anything of consideration, a dollar or anything of consideration, that’s a contract. If you don't put up anything of consideration, it’s not valid as a contract.

So, we’ve taught the people that we’re working with on our virtual assistant team. That’s what they do here, there PhDs that are the three dollars an hour, and we have four of them. So they work like 80 hours a week together. Of those, we see. We tell them, “Try and write at least 5 to 10 offers a day each.” So, if you multiply it out, you’re into the hundreds.

[00:23:24] WS: So, what's a way that you've recently improved your business, Ken, that we can apply to ours?

[00:23:28] KS: Well, I think just refining our techniques to the point where it's almost like rolls off your tongue, because you’ve been doing it so much. If you repeat something enough times and you do it with the right kind of knowledge base, it eventually will become part of your walking, talking culture, and you'll start to speak that way all the time. People will be aware of you, and they will respond to you.

When we call somebody we don't know, and we’re starting to build a contact base with them like I’m calling a hedge fund manager. I might have been referred to them by a law firm or maybe I was referred to them by LinkedIn or something. The first thing we always say is what we've done. We’ve closed 200 million in deals. We’ve done proofs of funds for over 500, up to 500 million already in soft. Soft meaning from our lawyer, not a bank statement. We’ve done – We have a lot of stuff in the pipeline.

Those are the kind of things you start with. But I always initially start with something that's not on-topic like I'm telling somebody I always see, “Thanks for taking my call. How's the weather where you are?” Something just to break the ice again. They go, “Oh! It’s so cold here.” I say, “Well, maybe you want to go to Maui.” And then they laugh, and you know what I mean. It just kind of gets things started. That’s what I found that works, and I think it works really well, especially when people are coming to you. They will come to you from DealStream, and they will come to you from LinkedIn.

[00:24:56] WS: So, what's your best advice for caring for investors, so they want to return?

[00:25:02] KS: Always treat them with the respect that you would treat yourself. Make sure you give them good reporting. Make sure you're honest with them. Don't try and cut corners with them, because if you make a successful investor one time and you pay them back, they'll come back again. They'll say, "Let's do this again," because they already had made money with you. I think that's really important. Ethics is at the top of the list.

[00:25:24] WS: What's the number one thing that's contributed to your success?

[00:25:27] KS: I think the way we treat people. We're known for doing what we say and say what we do. I think that's really important. I don't think you should ever yell at anybody. I think you should always – I always tell people pretend you're in church, because if you do that, you're not going to yell and scream probably, right?

[00:25:48] WS: We hope not.

[00:25:48] KS: You're not going to swear, probably. So. I just hope people – Just pretend you're in church. If you do that and you talk at this pace and you don't try and run people over with your words and/or with what your knowledge base is, they'll see what your knowledge base is pretty quick.

[00:26:08] WS: I couldn't agree more, and I appreciate you explaining about that one thing. It goes back to that networking and meeting people and treating people and investors and everybody like you want to be treated. But before we have to go, Ken, tell the listeners how you like to give back.

[00:26:21] KS: We certainly give back to our church family. We do some volunteer work around Christmas time and the holiday certainly. We're big believers in fighting for people's rights that don't have as much as we have, because there is always going to be people over you and always going to think they're not as well-off as you, no matter where you are in the totem pole.

Unless you're like one of the top billionaires in the world, you're always going to have some people that are above you and down underneath you in terms of their wealth. But that doesn't mean that they're any different in terms of their personality and who they are. We treat people no matter at what level we meet them all the same.

[00:27:00] WS: Tell people how they get in touch with you.

[00:27:02] KS: So, we have a website which is – Well, a LinkedIn, of course, with Creative Flips, Inc. on LinkedIn under my name. That's a good one. We always answer our messages. Or if we don't answer them personally, they're answered by the VA group out of the Philippines. You can send an email to us to our corporate email address and just put referencing the show at F as in Frank, C as in Charlie, I as in India and then the at symbol PacBell, short for Pacific Bell, P-A-C-B-E-L-L.net.

You can visit our website, which is more a landing page than anything else, showing our accomplishments and just Creative Flips. One word, creativeflips.webs. Plural on webs and flips.com. You can also listen to our radio show. I put 248 half hours together of radio called Making Money in Real Estate When You Have No Money. So, people will have a place to go to get the education and don't have to pay for it, these classes that they charge 20, 30, 40,000 for. They end up with the education. But they never buy property, because they can't take the money out to buy a property, because they bought the education.

I believe in giving the education away and letting people then help their families and such like that. So, we did 248 half hours. I produced, wrote, and posted the entire series. We have guests on there. We lots of things we talk about. Almost every topic that you can think of that will be coming up, unless you're doing $500 million deals. For smaller deals and for people getting started, it's a fantastic platform. I'm proud of it, and it prevents us from having to repeat ourselves in the education process, because we just tell people go to the website.

[END OF INTERVIEW]

[00:28:41] 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. 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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