EPISODE 423

[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 Stuart Grazier. Thanks for being on the show, Stuart.

[00:00:32] SG: Hey, Whitney! I really appreciate you having me, man. It's an honor and a pleasure.

[00:00:36] WS: Yeah. I'm happy to have you on the show. A little about Stuart, he's an active duty Navy pilot who has served 17 years in the military. Thank you again, Stuart, for your service, and we're grateful for that. He owns along with his family a portfolio of approximately $600,000 in performing mortgage notes for single-family rental properties and RV park. He's a part owner in an apartment complex and mobile home park syndication and has recently started a turnkey real estate company, providing rehab, cash flowing rental properties through their network of military veteran and patron investors. He's also the President of the Military Investor Network, which aims to network, educate, and connect other military veteran service members that are interested in real estate investing.

So, Stuart, thank you again for your service for one and then your time today on the show. We're going to have an interesting topic today as far as how you tried to get in the syndication business. I'm looking forward to that. I know the listeners are going to gain a lot from that. But tell them a little more about where you're located and what your focus is right now.

[00:01:38] SG: Yeah. Thanks, Whitney. I really appreciate it. So, I am currently in Denver, Colorado. Like you said, I'm still active duty. I've been in the Navy for 17 and a half years. So, I'm almost at the 20-year retirement. I'm at my last duty station currently stationed at Buckley Air Force Base, which is in Aurora, Colorado, the suburb of Denver.

I've been a real estate investor for a little over 11 years now. I started back in 2009 and kind of been dabbling really kind of all different niches of real estate. I actually started as a private lender, which is kind of the opposite of what a lot of people do. But I just saved up a bunch of money from deployments. I tried to live below my means and then just put my money to work as much as I could. I'm trying to really find ways to passively invest while being an active duty guy, deploying.

I flew helicopters for 10 years and then flew C-40s, which is like a Boeing 737. Constantly on the road, constantly deployed, and work on what is more than really a full-time job as an active duty Navy guy. So, I've always been trying to find ways to put my money to work. I did a lot of passive investing, lending, mortgage notes. I bought rental properties. As I'm kind of getting closer to the end of my active duty career, I'm trying to ramp up my real estate investing, because it's really what I love. I'm starting to kind of get more serious about that.

I recently started a turnkey real estate company with another active duty Navy guy. He was my college roommate for four years. So, we've been kind of flipping properties, rehabbing properties out of Milwaukee, Wisconsin. So that's been a real big primary focus for now, but I did make an attempt at doing a syndication which is kind of what I wanted to talk about today. Ultimately, I failed and I have some really great lessons learned from that. I have been a passive investor on some syndications in an apartment complex. So, I kind of took that and kind of ran with it. I'm just one of those guys that acts, jumps, and learns as I go. So, there's a lot of lessons learned from me failing in an attempt of a syndication.

[00:03:36] WS: Wow! I love stories like this too where people are willing to share their failures or something that happened. But ultimately, we're all going to learn a lot from it. I know you learned a lot from it. So hopefully, when you do it again, you're going to be much better prepared. I'm grateful for your willingness to share this with us.

But tell me – so you were focused on turnkey and single-family and then you thought, “Okay. I’m going to go. I’m going to syndicate.” Maybe you can correct me if I’m wrong, but you’re probably thinking, “Okay. This is going to be a way we can scale a lot faster.”

[00:04:07] SG: Yeah, absolutely.

[00:04:08] WS: Right? So, lead us into that a little bit. Ultimately, you created a fund or you were pushing to create a fund. But tell me the thought process behind what you were doing then and then where you thought this is going to take you.

[00:04:19] SG: Yeah. So, I think syndication in general, the point of syndication is combining funds to grow at a bigger scale than what you could do on your own. The idea that two other guys, they were active duty Navy as well, kind of came together and said, “Hey! We’re all buying single-family rental properties. What if we created funds and got more of the military guys involved combine funds to create a large fund and then go buy up single-family homes in all these different rental markets?”

So that was kind of the idea behind it. Pooling together money to go get a bunch of rental properties and then eventually live off of that passive income after we got out of the military. That was kind of the goal behind it all, and I think that’s kind of the main idea of syndication is growing and scaling through a group of people where you couldn’t really do that on your own. So that was kind of the idea behind it.

[00:05:09] WS: So how – What was the plan for raising the capital? You get the fund started. What was the plan for building this investor base?

[00:05:17] SG: Yes. As we talked about in my bio, I started a website called Military Investor Network, and it was really just a way to try to connect with people and network with people, offer education. I’ve kind of grown that throughout the years. I started, what was it, about five, six years ago. I had a pretty decent base of members of all military guys, all just interested and wanting to learn about real estate. So that was kind of what I thought was my way in to this group of people where I thought we could connect with and start getting people to invest with us.

Little did I really know that it takes more than just a few emails, a few phone calls to really raise money like we are trying to do. We are really going to try to raise about $500,000 to go buy rental properties every year. The guys that I joined partners with both active duty Navy. We all three had full-time jobs. We all three kind of did real estate on the side, and it kind of became just like a side project for us, which we kind of learned quickly that if you're going to take syndicating seriously and raising money, it kind of have to be your primary focus, because it takes a lot of work to network, to try to raise those funds.

So that was kind of one thing right away that as a lesson learned. It has to be your primary focus to syndicate properly and make that your primary focus.

[00:06:40] WS: I agree. I agree. You all were going to – You created. You could actually did get the fund created, right?

[00:06:47] SG: We did, yes. We hired an SEC attorney. We paid a pretty good amount of money. We got PPM, the LLCs. Two LLCs, the GP and the LP LLC, and went throughout hat entire process. We got to where we're actively trying to raise money. Another kind of lesson learned there was that we kind of didn't really set roles for each other. Each one was just trying to like talk to people, talk to investors within their network and then try to kind of combine forces through that.

I think to do it again would be like really set goals and set primary roles for each individual that's a part of the GP, and we didn't do that. We were kind of just no method to the madness, kind of trying to talk to people trying to get their investments with no method there.

[00:07:34] WS: Was this a 506(b) or (c)?

[00:07:36] SG: (b) is for non-accredited investors. We're primarily focused on other military guys. For the most part, most military people aren't accredited investors. It was a lower-barriered entry where the goal was we set $10,000 investment per year for five years. That was kind of the structure, which in itself we kind of found probably wasn't the best way to go either, because just trying to get $10,000 a year every year for five years could have been challenging in itself. But that was the idea behind it.

[00:08:04] WS: What was the first sign that, “Wait a minute. This isn't going the way we thought.”?

[00:08:09] SG: We just – We’re not getting the interests that we thought we are going to have. The product itself, it was a blind pool fund. We didn't have specific properties identified, which also was a huge lesson learned. It was – It’s hard for an investor to really look at something and decide to pull the trigger on throwing a lot of money at when you don't really even know what you're investing in. Our idea was, “Hey! We’re just going to go buy a bunch of rental properties in these awesome markets for cash flow. Here's an example of a pro forma of rental properties that were going to go buy.”

That’s all it was. It was just a blind pro forma of a rental property that they really couldn't see. There's no pictures of properties. There’s no actual data for the properties. We really didn't even have – We have come at some markets that we were thinking about investing in, but there was nothing truly, truly identified. So, people were really hesitant to invest with us. Really the only people that did decide that they were going, they actually signed the agreement, were people that were like really close to us that just completely trusted us as people, not so much trusted the investment itself. We set a six-month deadline for us to raise the first round. It came to that six months, and we were really nowhere close to raising the money that we had hoped we were going to.

[00:09:24] WS: Yeah. You learned a very valuable piece here or anytime raising capital. I mean that investor has to trust us, right? They have to know us. Ultimately, if they don’t trust us, they’re not going to invest. That’s a prime example where you just said the people that invested, they’re the people that already know you and trusted you. Other people are questioning.

So, if you don't have a long track record of operating as a syndicator or especially even a fund, it's going to be hard to get people to invest, especially in a blind pool. It’s really an investor investing in your track record and your ability. I mean, they are anyway. But at least on a single one-off syndication, they can see the deal. They can see the numbers. They can actually go touch it and walk the property and ask questions to the operator. But in this case, they just had to trust you.

So, six months goes by. You realize that, okay, the funds just – It's just not going to be as easy as we thought, right? So, what happens then?

[00:10:20] SG: The three of us just kind of talked, and as I said, it was kind of just like a side project for us. We kind of just came together and said, "You know what? This isn't working. We all have kind of our separate things going for us. Let's go ahead and dissolve the LLC and kind of just move on." Each one of us had different things going on. I had recently started the turnkey business. I had rental properties myself. I was still doing private lending on the side. The other two were doing the same. They were buying up their own properties for their own personal portfolio. So, we decided to call the lessons learned and dissolve the partnership. Kind of take it up from there and move on.

[00:10:56] WS: So, let's go over some of the what we would do different doing it again. So, moving forward, from what you've learned now, do you plan to do it again?

[00:11:05] SG: Yeah, I think so. I think one of the biggest things that we talked about like trusting a person that's doing the deal is probably first and foremost. It's what as a passive investor investing in a syndication, I've always put that first and foremost is who is the person that is running the deal and does that person have experience? So, for me, I think what I took away from it is, "You know what, I'm just going to go buckle down and take these next few years and really get the experience and be that guy that has the street credit. Be that guy that is going to be the one that can answer all the questions."

That's kind of what I'm doing right now. I'm just continuing to try to network, build relationships with people, add value to people. I've started putting myself out there a whole lot more on social media and stuff I never used to do in the past and I've done more in these last couple years since this failure than I have way before it, just kind of throwing myself out there.

Then I'm starting to try to buy some stuff for myself. I just closed on an RV park. It's small. It's a 20-pad RV park but it's kind of my attempt at learning the business on the commercial side of it.

So, I'm kind doing that. Then on the turnkey business, we're raising money, but it's from one person at a time. Interestingly enough, we've raised about $500,000 of capital to use in our flipping in the turnkey business, but it's from onesie-twosies and not a large group of individuals. So, I'm trying to build that trust, build that experience. In a few years, I think we'll make another attempt at it and maybe do it with some different partners.

[00:12:41] WS: Wow! So, you mentioned like you're putting yourself out there more and you've already raised some capital from investors in a different type of business. Anything else that you do different when you're going to do that fund the next time or maybe up to that point?

[00:12:54] SG: Unless you're like Brandon Turner on BiggerPockets and you can do a huge blind pool fund, I think the way to go is to have a specific property identified. I don't think I would do a blind pool again. If I'm going to go syndicate, I'm going to create a syndication solely based off of one property so that you really have the property under contract, ready to go, actual numbers on it. People can go and view the property, walk the property, and see what they're investing in. That's definitely what I would do the next time when we come around again for an attempt at it.

[00:13:25] WS: What about just fielding those investor questions? What were some of the questions that maybe you had? Just helping the listener to prepare also for those questions, what were some of the questions that you know now that you will be prepared to answer the next time that maybe you weren't this last time?

[00:13:40] SG: The way we did it, just like the blind pool fund, it just wasn't a very good way to go, because some of the specific questions that an investor would ask, you didn't really have the answer to because you didn't have a specific property lined out. You didn't have a market lined out. Getting into the nitty-gritty of looking at a P&L statement, it was all just kind of – It was just – It wasn't real, right? So, trying to explain what you're hoping for and what your goal is, it was all just on a pro forma basis, and you couldn't really answer the questions that they were hoping for. That's why we didn't really get the interests from investors we are hoping for.

Our plan was to not pay a profit first. Our plan was just to pool the funds, go buy a bunch of rental properties, take the cash flow from those rental properties, keep it in-house within the fund, and then go buy more as we have enough money without paying any dividends to investors for the first five years. Investors didn't like that. And the idea behind it was to grow the assets to where we could have enough income and cash flow come in to where you could actually have a bigger return on your investment overall but you would take really zero cash flow upfront. So that's kind of a longer-term play.

But what we've kind of taken away from that, I think investors would prefer to have a smaller return but have it immediately month one after investing versus waiting for that long-term higher return on investment. So, it's probably something that I definitely do over is have that preferred return immediately once you buy the property.

[00:15:13] WS: Yeah. Stuart, how are you preparing for another potential downturn that everybody's talking about?

[00:15:20] SG: I definitely am – I'm trying to keep a pretty good size cash reserve just in case there is a downturn. I'm also trying to invest in assets that I think won't have as much of an impact. So, like I said, I just purchased an RV park. And the idea behind that is affordable housing, which is really needed right now. What I bought was a small country suburb outside Dallas-Fort Worth, which is where I'm originally from. Dallas-Fort Worth in general has been growing a lot and is becoming pretty expensive. The affordability factor there is an issue. So, I think that alone is kind of a hedge against a downturn.

I also like the idea of owning the land and not owning the actual property. So, although I owned a few of the RVs right now where this park is, the goal is to sell them all off through either seller financing or rent-to-own contracts. That way, all I have is the land and the maintenance of that land and the upkeep, and then everything else is owned by the actual individual. That I think is really good hedge against a downturn. Then just kind of trying to play it safe and really keep my eye on the pulse of where the market is.

[00:16:30] WS: I know nothing about an RV park, but an RV park – Now, I mean, these were actual RVs, something that you could hook up to your truck and pull out of there, right?

[00:16:39] SG: Yes. This one is a little different than a typical RV park. These RVs for the most part are owned by the park, and half of them are on rent-to-own contracts. So the people living in them, although they act like they're going to own it, they couldn't just pull the truck up and leave because it typically – They really don't own them yet. They are skirted. A lot of them are sitting on cinderblocks. They don't even have wheels on them, and there's porches built on to the side of them. It acts more like a mobile home park, but they really are RVs. So that's kind of what I liked about it, because a true traditional RV park is correct. I mean, they can park in and out. It's on a monthly basis. There's a chance for it to go vacant pretty quickly, and this one is really more like a mobile home park.

[00:17:24] WS: Okay. Well, a few questions before we run out of time, Stuart. But what's a way that you have improved your business recently that we can apply to ours? Like I said, I think trying to add value and throwing myself out there through more just phone calls with investors, just trying to help them in any way I can and doing that a lot more, and just trying to build relationships that way. Offer advice, doing stuff on social media, writing blog posts, doing videos. I've just been trying to scale that a lot more within the last couple years. I think that alone is getting some traction as far as just building and growing my network. It's helped a lot.

Also, with the turnkey business, we've really started to put a lot of systems in place. Using project managed software, using CRM tools, using Slack and Asana, and creating those systems to where it could be the same every single time, so we can kind of have that process and system in place, and you can move that into any market. I think that would apply to really any real estate business.

[00:18:23] WS: Now that you've done this fund, I'm interested to hear this as well. But what's your best advice for caring for an investor, so they want to return to the next deal?

[00:18:33] SG: Continuous communication is super important. Since I've been a passive investor as well in some syndications, that's been really powerful for me is really getting that continuous feedback, continuous communication, and over delivering on the communication. Your return is huge. I will absolutely make my best effort at doing that as well when I do plan on syndicating again.

That's what we do with our private investors for our turnkey business is we're always telling them about what we're doing by sending them emails, giving them phone calls, updating them on how deals are going, what we have in the pipeline. So, I think that's super important.

[00:19:13] WS: What's the number one thing that's contributed to your success?

[00:19:16] SG: Not being scared to fail, honestly. And I failed in a lot of different ways and I've had some major setbacks. There's been times where I've lost a lot of money. But the drive to continue and push forward after failing and taking and learning from those failures has been I think a huge part of the success.

[00:19:36] WS: How do you like to give back?

[00:19:38] SG: Our company, Storehouse 3:10, we take the first 10% of our profits and give that to a nonprofit organization. We support a nonprofit called a Warriors Heart Foundation which is out of Bandera, Texas. It is a healing center for folks with PTSD and alcohol or drug addiction. PTSD and veteran suicide is a really big deal right now. So, we support them with our company, Storehouse 3:10. Then just like I said, continue to try to help and educate other military veterans. We have Military Investor Network, which is solely with the idea of connecting, educating, and helping people.

Then recently, we also started a mastermind group again solely for military veterans that are interested in real estate investing called the War Room Mastermind, where we have a small group of people that we mastermind with on a weekly basis. We're bringing guest speakers, and it's just an attempt to continue to help folks like me get into real estate.

[00:20:41] WS: Nice. Well, I appreciate how you give back and our veterans. A lot of these guys need a lot of help, and I'm thankful the Lord has blessed me to be able to come home from overseas and to be with it mentally and all those things that we take for granted. I appreciate that. Somebody recently told me like the – I can't remember. But the number of veterans that commit suicide every day. It's just a crazy amount.

[00:21:03] SG: 22 a day.

[00:21:03] WS: Yeah. What is it?

[00:21:05] SG: 22 a day.

[00:21:06] WS: 22 a day. Yes, it's so sad. These men and women who have fought and have done hard things and come home, and it's hard to adjust. You just can't understand unless you've been there. But thank you again, Stuart, for your time today. I appreciate just the value you've created today and really being willing to share about what you called a failure. But I think you're going to be much more prepared for the next one because of this and so will our listeners. I appreciate that you and your service. But tell the listeners how they get in touch with you.

[00:21:35] SG: Yeah. Again, Whitney, I appreciate you having me. It's been a pleasure and an honor. I have a few different things going on. Like I said, I have the Military Investor Network. You can just Google the website, militaryinvestornetwork.com. That's really for any military veteran that's interested in real estate investing, which is the way to connect and continue to stay educated. I have all the social media channels; Instagram, YouTube, Facebook. You can also find me on LinkedIn. Just search for my name, Stuart Grazier on LinkedIn.

We have a mastermind group. It's called War Room Mastermind. If you're a military veteran and interested in joining our mastermind group, you can email wrmastermind@gmail.com. Then lastly, I had the turnkey company called Storehouse 3:10 Ventures. You can find their website. It's storehouse310turnkey.com. If you're interested in buying turnkey rental properties, we're based out of Milwaukee, Wisconsin, and I think we offer pretty good returns for cash flow at rental property. Yeah, that's it.

[00:22:32] WS: Awesome. Thanks, Stuart. That's a wrap.

[END OF INTERVIEW]

[00:22:35] 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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