

EPISODE 451**[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 Drew Pearson. Thanks for being on the show Drew.

[0:00:32.2] DP: Hey, thanks so much.

[0:00:33.5] WS: Yeah, a little about Drew: he began as commercial real estate career at Latter & Blum at Baton Rouge in 2008. Moved to a boutique firm named Waters & Pettit, is that how you say that Drew?

[0:00:47.8] DP: Real close.

[0:00:48.5] WS: Waters & Pettit in 2011 and within a few years, became a top selling agent there. To date, he has sold over 100 million dollars of investment property in more than 15 states. In 2015, he began to work at a real estate private equity firm Promanas, is that how you say that?

[0:01:07.3] DP: Promanas.

[0:01:07.5] WS: Promanas. I'm messing everything up today my goodness, in Ann Arbor, Michigan where he served as Head of Acquisitions, helping the firm to grow to over 250 million

dollars of real estate in assets and value. He considers his time there, instrumental in his growth and development process.

Drew, thank you again for your expertise and being willing to share today. But give the listeners a little more about who you are and what you're up to right now.

[0:01:32.1] DP: Thanks so much for having me on the show. I'm born and raised in Louisiana and I've always been passionate about real estate. And you know, like we talked about, I got started as a broker and you know, it's a tough job being a broker, waking up one day, having someone change their mind and you're like, "Wow, still got to pay the house rent this month." And there it went. For a couple of years, I'm thinking, "So, how do I grow my wealth in real estate? How do I add value more importantly in other people's lives?"

It's just been a natural transition to get to this private equity world of real estate, whatever you want to call it. Right now, we raise capital to buy income producing properties, we manage those properties and then send the return back to our investors on a monthly basis. We're trying to create metal box money for our investors in essence. But you know, we just closed our fifth deal, we've got about 12 or 15 million on our management right now across two different states. We're scaling our property management. We're scaling our fundraising.

I wanted to come on the show today just to talk about some of the challenges, to be encouraging to folks in my position. It's a big leap going conceptually from, "Hey, I know about real estate. I've done deals to raising money and then using that to feed my family." That's one of the biggest reasons I wanted to come on the show today.

[0:02:49.6] WS: I love how you laid that out there, I mean from getting started to using it to feed our family. That is a big step and I mean, just getting to a couple deals. I mean, that's getting started, I just see it time and time again is so difficult, right? I mean, I learned it myself and seen it through my own business and then I see it in so many people all the time with just getting started, especially the first deal but I'd love to hear, getting your business off the ground, getting started or you know, maybe you can help others who haven't got to the first deal yet.

Maybe we can back up a little bit and lay out a little bit of the challenges that you had to work through and help us do the same.

[0:03:24.6] DP: Well you know, I think the biggest challenge is really the mental challenge of just knowing, "Listen you can do this." Depending on your level of background, you know, I think the safest way to invest in real estate is to try to find value-add properties. Properties that are below replacement cost where the tenants repay at or below market rent. Can we reinvest in capital into the property to raise those rents and raise that value?

We were fortunate enough to find a property similar to that located, right next to a hospital lease the doctors and urgent carers. That's been a great property for us. And then at the same time, we found another kind of corporately leased property to a Fortune 500 company with 2,000 locations around the country. We have a blend of kind of "steady-Eddy" money that shows up, you know, automatically, direct deposit.

We also had this other property where we kind of roll our sleeves up a little bit, add value to it and continue to increase the cash flow in its value long term.

[0:04:23.7] WS: You had mentioned, value-add, usually is the safest place for people to start. Right now, value-add properties are hard to find, right?

[0:04:34.6] DP: I guess I got started back in '06/'07, working for a developer and things were tough for him in '08 as they work for a lot of people and so, I am a little more of the conservative mindset to seeing how it can go real bad. I know a lot of people have done well in development but that's kind of why I tend to stay closer to the value-add.

[0:04:52.3] WS: Yeah, we talked about it on the show about how a lot of people are moving to development because of the difficulty in finding properties. But I'm not so sure that's a place where I would start.

[0:05:00.5] DP: Yeah. I can agree. I think you need a strong balance sheet. It's helpful to have seen a cycle or two.

[0:05:06.4] WS: Yeah. You talked about some of the challenges getting your business off the ground, getting started. What are some other challenges getting to that first deal?

[0:05:13.5] DP: Right. You know, I think one of the biggest things for your first deal, it's the chicken or the egg. We have to have the capital and the deal, do the due diligence and then close simultaneously. One thing that I do improve upon next time is kind of soft raise that money to begin with. Go to your friends and family, say hey, "Listen guys, is what I'm looking to do." Kind of give a hypothetical property, hypothetical, price range in return and say, "If find something like this, would you be interested in investing a deal like this?"

And if they trust you, odds are, they're going to say yes. You kind of got this capital, soft committed, talk to a banker and kind of get some money. Some hypothetical terms lined up and they have your global cash flow statement and all this kind of stuff. It could be very stressful when you get down to 10 days left for your inspection, you're raising capital, you're going through an operating document and you're doing all of this and you kind of run around with your hair on fire.

And so, my suggestion is to kind of take it into pieces where you're prepared going into that first one or second one.

[0:06:11.7] WS: I love that, running around with your hair on fire. That is so true, can be so true. But it is a big issue that I hear talked about also, is it the deal you need first or is it the capital where everybody says, "Well, if you have a good deal then money's going to come."

[0:06:25.0] DP: Well, again, I think it's true. A track record is just so helpful and we're kind of getting our fourth and fifth underneath our belts and we're distributing capital on a monthly basis. I just can't tell you how much easier it is to have conversation with investors. They're referring us to their friends and so in my opinion, it's a simultaneous deal that you need to properly plan for.

[0:06:46.7] WS: No doubt. I like your point that you said about having a hypothetical deal and going out and talking to people and you do have to have some kind of input or interest in people investing with you, right? Starting after when you start a due diligence on a property, that's not the time you want to start raising capital, right?

[0:07:02.8] DP: Ill-advised I'll say.

[0:07:05.8] WS: If you're talking to somebody and they're saying okay Drew, I've talked to my friends and family. I feel like I've got \$500,000 committed. How much of that would you say we should count on when we actually have a deal?

[0:07:16.6] DP: Well, I would say, it's all kind of depends on who your friends and family are, who your father in law is but I would feel good about 400,000 of that. I guess I've learned a few things of when you targeted money – I'm in my 30s and so I have some friends who are fortunate enough to have gone pretty well.

You're really targeting investors who are 50 and older. They have a lower risk profile, I have a lower return metric, we all think folks in their 30s and early 40s are still – in my experience are aggressive and looking to really grow their net worth which can be challenging on the return side for real estate. Challenging to get them interested. I'll focus on some higher net worth older folks who are conservative and I will just really clearly lay out.

The first question everybody has is, "Okay, as the investor, what am I going to get paid and when am I going to get paid back?" So, you can those two questions. The next question is, "Okay Drew, when are you going to get paid in all this?" They want to make sure it's reasonable and it's fair, that you're not kind of dipping in the kitty before you should. The answer to those two questions first, and then go into the property specifics, what's your path to growth, why you think there's an opportunity here.

I thought it was a much harder conversation and it's basically – it's really a 15-minute conversation. And then you need to ask, make sure you ask for the right amount, just ask, say what you need," I need \$250,000. I need a million dollars." And you'd be shocked in what the world will deliver to you.

[0:08:43.7] WS: You know, would you elaborate a little on maybe how you raised the capital for your first deal?

[0:08:47.7] DP: Sure, I was fortunate enough that in my 10 years as a broker to form some good relationships with some other property owners in my area. Some guys were 30 and 40 properties already and it was like, "Hey Drew. We like you. We trust you." I've kind of gained their respect and credibility.

That was probably three of my investors which accounted for 50, 60% of it. I also have a partner who I work with, Ben [inaudible 0:09:12] and he had a family member come in for a little bit. It was really easier than I thought it was going to be. I'm not lying to you it was 24 hours to raise a million bucks. Just like that.

[0:09:23.9] WS: Good for you. Would you agree thought that that was all because of the previous relationships and how you had built those, long before you needed capital?

[0:09:31.6] DP: Absolutely. If I didn't have the background in real estate it would be an emotional challenge. You know I also didn't ask my family members directly. I didn't ask my dad or my mom or my parents or anything. Just like what everybody's situation is different. But just making sure to keep church and state separate, I think it's good for Thanksgiving meals, you know?

[0:09:51.0] WS: So then in growing your business or going from the first deal to the second deal, any other challenges there that maybe you didn't expect or you didn't have on the first time?

[0:09:59.9] DP: Well, I think it is so important to understand your strengths and your weaknesses. Often times, guys who get off the ground are deal junkies, they're deal guys and that's what I am. Unfortunately, some of the minute details of like hand reconciliations are not my strong suit. And so, making sure that your plan for future hires we are trying to build out our property management team right now and they are just some inevitable challenges that come with that.

But as long as you have a good plan in place, a plan to grow, I think that is what's important. The deal with real estate is you have to have certain assets under management to pay for some

of these positions and so until you have that income coming in it is up to you and maybe your partner to take care of it.

[0:10:42.1] WS: So, planning for future hires. I think that is very smart. How else are you planning or let's say after the first deal maybe into the second, what are the things that maybe you should have been planning for that you weren't at that time?

[0:10:54.0] DP: Again, there is so much stuff that you don't know until you get into it but we've really grown our knowledge on the non-recourse debt side of things and so we've got a great mortgage broker [inaudible 0:11:03] who we'll use, who is young and aggressive and who gets us to constant great quotes. You know it is just proper preparation. It can be applied to really every metric in real estate from lining up your local lending to your inspection material. You know inspections on your properties and all of that.

[0:11:21.1] WS: How did you all educate yourself about non-recourse loans or did become so knowledgeable about them?

[0:11:26.6] DP: It was just the most random thing. I talked to Professor [inaudible 0:11:29], who is head of finance and he was a mortgage broker in the past life and he had referred me to someone who referred me to this guy and he's been phenomenal. He is guy about my age who we can kind of grow our career with and I think it is important to just try to align yourself smart and people of high moral character who are hungry. You know who the guys who are hungry and the guys who gets kicking back with their feet up most of the time.

[0:11:53.9] WS: I like that. You know there are times where you need the guy that's been in the business already 30 years. But then again there's times where it's beneficial to have somebody that's not as experienced but somebody that is still hungry like you are talking about.

[0:12:04.6] DP: Exactly, well he has eight, nine years' experience on the banking side and so he's like us. He's just made the leap to really eat what you kill last year and so he's been a great relationship.

[0:12:14.5] WS: I like that and so Drew what's been the hardest part of this syndication journey for you?

[0:12:19.5] DP: Man, you know I think patience is such a hard thing. You have this big goals in front of you. You have some internal investment metrics that looked really great and Excel. They work really great on paper and then finding those deals and being patient enough to say, "Hey listen, if follow our process, which is prospecting every day, which is communicating and doing deals the right way knowing is going to come."

And knowing that this is a get rich quick in 30-year strategy. So, if we do our jobs right, it is going to all work it selves out in the end. But those first one in two years you are ready to get there. You are ready to push and be aggressive, which is not always the best thing to do when it comes to capital allocation.

[0:12:58.7] WS: Yeah especially when you are brand new.

[0:13:00.9] DP: Right.

[0:13:01.4] WS: So, you know, how are you preparing for this potential downturn that everyone is talking about?

[0:13:06.2] DP: You know I guess that is the million-dollar question and I am certainly not smart enough to know is it going happen tomorrow or in 10 years or something with Iran or who knows what? Again, we come back to core principles in real estate, which in our opinion is buying properties below replacement cost, leased with tenants are at or below market rent and lease the companies who are Amazon and Internet resistant.

You know we lease to people like Exxon who have a pipe yard. Or a doctor who gives pain back medication for their patients. These are things that can't be outsourced to the Internet. And again, we looked at making sure that we are not paying above market rents. I think Starbucks is a phenomenal company but if they ever leave a location it is hard to place \$45 of square foot in rent and so just making sure our downsize is protected where we can weather the storms to come.

[0:13:58.7] WS: So, you are doing numerous asset classes or what are you're all focused?

[0:14:02.5] DP: You know right now, we own industrial and multitenant medical. Multifamily is not my bailiwick. I am going to leave it to people like yourselves who are much more skilled at it on the management side. We are not really into retail because I think there is a lot of question marks there. I have some friends who are doing very well on large scale, second and third generation of developments but again that is not our bailiwick. In the southeast industrial is really big and I think medical office is a long way to run.

[0:14:29.4] WS: So, what is a way that you have recently improved your business that we can apply to ours?

[0:14:33.8] DP: Man, that is a great question. We have started implementing and using *Traction*. It's a system and book written by, it is on my desk right here as a matter of fact, it is written by Gino Wickman. And it is a great system on keeping your team members accountable and yourself accountable. Weekly meetings to really set goals and reach those goals. We just started implementing that a few months ago and it's really been great for us.

[0:14:58.5] WS: Are you all doing the EOS portion as well?

[0:15:01.2] DP: We are doing the EOS on our own right now with the hope to get there in the next 12 months having implement our company and having to do the whole deal. Again, it is all about managing that cash flow early on.

[0:15:12.5] WS: Yeah, what is one way that you're seeing *Traction* and the things in that book will help you all the most?

[0:15:17.7] DP: Well you know I think it's great to write your goals down and look at those goals every day. Look at – you know they call them rocks, which are your quarterly goals and then your issues and working through those issues. I am always shocked when you have these nagging things in your mind at four in the morning. You go through your day and nothing is ever completed on those issues. But you have these issues that you work through them and in five

days you're like, "Oh shoot, wow I got all my issues solved for the quarter." And so, it really holds your feet to the fire and keep you accountable.

[0:15:47.3] WS: It is time to come up with some more rocks then, right?

[0:15:49.3] DP: That's right. I mean I think we are going to hit our goal here in January for the quarter. So, it is time to get some more properties under contract.

[0:15:57.6] WS: What is the best advice that you can give for caring for investors in a way that they want to come back to the next deal?

[0:16:03.5] DP: You know I think what I have found is just to be – it sounds cliché but just be open and honest with people. Be as transparent as possible. And then I really think humility goes a long way. I am certainly honored for the money that we have the opportunity to deploy and knowing that \$250,000 is a lot of money. I know we can get distracted by stuff in the media or numbers or whatnot but that is just a lot of money to families and the people. And the fact that we had that opportunity I am just humbled every day and it is our responsibility to treat it right.

[0:16:33.4] WS: What is the number one thing that has contributed to your success?

[0:16:36.5] DP: You know I am fortunate to have a great partner who I have been – work with every day and we push each other to think bigger, to be accountable and to do our jobs to the best that we can do. And the good Lord has put a lot of opportunities in front of us to be successful and so I am thankful for all of those things.

[0:16:53.8] WS: And how do you like to give back?

[0:16:54.9] DP: You know it is something that we are really working to do. I don't know yet is the answer. I know that is a part of my life that is a little weak and it is one of our goals this year is to contribute a portion of our profits to something that is worthy whether that is St. Jude or whether that's for wounded veterans or something like that.

[0:17:11.5] WS: Wow, I appreciate your transparency and that you all are thinking about giving back and tell the listeners how they can get in touch with you.

[0:17:17.3] DP: Yeah, real simple. You know my email is drew@pearsonpartnerspe.com. If you got any questions or you just want to catch up, I'd be glad to offer any advice or help I can.

[0:17:35.2] WS: Awesome, thank you Drew that's a wrap.

[0:17:36.6] DP: Thank you.

[END OF INTERVIEW]

[0:17:37.6] 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.

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[OUTRO]

[0:18:17.4] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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