EPISODE 469

[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 Lucas Miller. Thanks for being on the show, Lucas.

[00:00:32] LM: Whitney, I really appreciate the invitation. I'm excited to be here.

[00:00:36] WS: Yeah. I'm excited to have you on the show. I feel like we've known each other a couple years now.

[00:00:40] LM: Yeah. Yeah, it's been a while.

[00:00:41] WS: Yeah. We've met at numerous conferences or had inner numerous times. It's been great to get to know you and watch your success. But a little about Lucas, in case you have never heard of him before, he is a multifamily syndicator, over $40 million in assets purchased. He helps passive investors navigate the world of passive investing and gives them clarity on what they should and shouldn't focus on. He's the host of Fear Free Passive Investing Podcast and lives in Colorado with his wife and two boys.

Lucas, thank you again for your time today, and it's a great topic. I mean, I know there's lots of passive investors that are listening right now because I speak to them weekly. They say, "I'm listening to the show and all this." But I know that's a question. They're all worried about making that investment, especially when they're brand new. They have lots of questions. So I feel like this is a great topic.

But, first, tell the listeners a little more about who you are and what you're up to, and let's dive in.

[00:01:36] LM: Yeah. Well, of course, like you said, I'm a syndicator. That's my full-time job. I've been doing that for a couple years now but I didn't start that way. I started in residential like a lot of people, right? That's a typical path of flipping houses, having rental homes and all that, and just realize that scaling up into syndications really was the safest option for both me and my money and my investing, as well as my investors.

When you talk about the fears that new investors have, a lot of it circles around this idea of security, right? They don't want to wire money to someone that they just don't understand. They don't know like, "Oh! Is the market going to crash? Is this property in a bad shape?" The best way to eliminate some of those variables is to really focus on these assets that are really high-quality, institutional, businesslike assets, and not your mom-and-pop 1950s home with knows what kind of damage you can't see behind the walls.

[00:02:31] WS: Investing in businesslike assets, that's interesting. Would you elaborate on that a little bit? What does that mean, businesslike assets? If I'm that passive investor, what am I looking for there if I'm looking for that business-class asset?

[00:02:43] LM: This is the story that I've gone through in my head, right? I started as an active investor, residential, buying houses and flipping them. You never really know what you were going to get. So you would buy a house, you tear down some walls, you find some plumbing issues, right? That takes away a whole year of cash flow sometimes if you're not doing your due diligence correctly.

You look at that and you say, "How can I eliminate some of this? How can I eliminate some of the fear of having my entire savings wiped out in one mistake?" You start to look at, "Okay, let's scale up a little bit, right? Let's diversify some of that risk across a greater number of units." So I started looking at 15-unit buildings, 30-unit buildings, 40- unit buildings to get more and more tenants.

Then that brought another host of issues along with it. It's still a commercial asset. Banks still look at it same, but you still have some of this fear of these buildings that are older, usually. They're not building a lot of 30, 40, 60-unit buildings these days. A lot of it's much bigger. So you're looking at an older property type but then you have this uncertainty of the financing.

In the places that I'm investing, 20 units is not over a million dollars, and so you're looking at commercial financing for that. They're looking at it as a business but they want to make money too, right? So investing in business assets means something that you can look at an income and expense sheet just like you would evaluate a normal business and say, "How can I maximize efficiency while minimizing my downside risk?"

The sweet spot that I've kind of focused on and zeroed in on is that hundred units in a value-add B minus to C plus class assets that really maximizes that potential for me.

[00:04:29] WS: Okay. Wow! Now, that's great to know, because I know, first, so many people have no idea that they can even invest in real estate through syndication. They don't even know this thing is out there, and I didn't for a long time. Then when I finally learn about it, I'm like, "I just cannot believe that I didn't know about this before now." Or you're just brought up thinking that like the stock market, mutual funds is just – That's what we do. That's how we have a retirement, right?

But I didn't know for a long time and I know a lot of people don't know. Or once they're getting in, they're nervous and they're trying to figure this out. It's great for them to think about the 50-unit versus the 100-plus-unit property and understanding some of that when thinking about who they're going to invest with.

As that passive investor, what are some other fears that you see that are common that we could just eliminate right now?

[00:05:16] LM: Yes. I've interviewed a lot of newbie passive investors on how they got started, because a lot of them share the same path that you and I have, like we didn't even know that this existed. You find out that this syndication model exists. What's the next step, right? You start reading through articles, you start listening to podcasts, and you're just inundated with the amount of information. That is so scary for a lot of people.

The number one fear by far and away is basically how they can eliminate their downside risk. They want to know if they can get their money back or if it's a Ponzi scheme. That's really one of the biggest items. Yes, it is legal. Yes, it is encouraged in fact by a lot of government entities because of the ability to provide housing to the folks on scale, right? Not just mom and pop, one or two houses. They want to know if their money is protected in a businesslike setting and they are able to see that we're able to take advantage of economies of scale with management, with buying stoves, and all kinds of things that you're able to do when you scale up to these bigger properties.

Once they start to realize that, "Hey! This is more like investing in a business and not like investing in that house that my cousin lost all his money on." They really start to see the value of it.

[00:06:36] WS: I like how you word it. It's more like investing in a business. I couldn't agree more, because they are investing in that operator, in their business model as much as anything.

[00:06:46] LM: Yeah, especially when they realize that their management companies become a lot more professional at this level too. A lot of my investors, and I'm sure some of yours, are former landlords or they're current landlords actually and they say, "Oh! I'll never give it to a management company. They're too expensive. They don't run my property well. They charge you on expenses like putting in a toilet that costs $500, right?"

When they realize that on management companies at scale, you're making hundreds of thousands of dollars on this property. It's not a mom-and-pop operation either. As the property scales, so do the management companies, and that becomes a lot more businesslike too and a lot more professional. So we're able to eliminate some of that risk of, "Hey!" You're not going to be called at 3:00 AM to go fix a toilet. You're going to get a call from me and say, "Hey! Sorry. We had to put in a new toilet. That's going to be another 500 bucks, right?"

You put in your principal. It's a passive investment, as all of your listeners know. That's it. We take care of the rest.

[00:07:49] WS: What about this building a legacy? We hear that often, and people think, "Okay. I want to make sure and leave some money for my kids or whatnot." I mean, investors, you have that in mind when you're thinking about how you're being strategic about how we're investing in real estate as an amazing model to build that wealth and legacy.

But what are some ways that you've seen maybe investors really think this through in a good way or ways you've seen that are working the best for people to really build wealth and leave a legacy for their children or family?

[00:08:16] LM: I think the biggest thing – I talk to a lot of investors, and they say, "Or how about a lot of new investors that know they should be investing in real estate?" They hear that all the time, right? Everyone knows, "Oh! If you want to be diversified, invest in real estate." They're not making any more of it.

If they're a new investor that have never heard of syndication before, they're thinking, "Oh! I got go out and buy a dozen houses." When instead with this syndication model that you and I talked a lot about, they're able to do this passively, invest in real estate, get all the advantages of real estate.

A lot of downside is eliminated by doing that, and then that allows them to focus on their career. They're busy professionals. They're doctors. They're lawyers. They're dentists. Whatever it is, they're able to continue working on their craft and maximize their income potential there, while letting essentially outsourcing their investing in real estate to somebody else.

That's how you really get into building that legacy of – I call it snowball effect or compounding investments. Whatever it is, when you start stacking those one on top of another, that return and that legacy that your building is really compounded and really starts to grow. You can outsource building a legacy essentially.

[00:09:33] WS: I like that. Yes, you can when you think it through and you partner with the right people. What are some other benefits to investing in a deal like we operate that a lot of investors may not have thought of?

[00:09:44] LM: Well, I think a lot of it is – It's twofold, right? One, you have the cash flow. Some operators do quarterly cash flow. Some operators do monthly cash flow. While that's nice and that's really what a lot of operators focus on, I like to focus on two things; one, the passivity and, two, the tax benefits that you're going to get for this.

This isn't a strategy for people who only had $50,000, and they're looking to grow that really quickly, right? This is for the busy professional who makes us a decent living that really wants to think about the future. So I focus in and almost zero in on that passivity. Your return you're making is not as much as you can make while you're flipping houses. But when you wait that dollar against how much effort you're putting into it, the return is incredible.

I focus on the passivity, which is awesome, and then eliminating that downside risk too helps with the tax issue. I'm not a CPA, so I don't want to get too much into it, but the tax benefits are incredible if you're investing in multifamily syndication. Then there's some for other asset classes as well. But really, the tax benefits are a big part of that too that I think often get probably ignored sometimes.

[00:10:57] WS: Any other big fears that you see that are common before we move on?

[00:11:01] LM: The biggest fear, like I was saying earlier, is protecting that downside risk. But another big fear people have is how am I knowing the person that I'm working with is trustworthy. That's a big part of this, and so a lot of it comes down to, "Hey! I've been listening to Whitney for years now at this point. I know he knows what he is talking about. He's really trustworthy. He's got a lot of people that are backing him up. He's got tons of great reviews. That's someone I can get behind."

If he's some fly-by-night person where you're not really sure that they're going to be in business in five years, which is the hold cycle for some of these deals, that really starts to play into that fear. The more doubt they have about that, the bigger that fear is, and that is one of the biggest reasons that people choose not to invest is just that itchy feeling in the back of their head like, "Hey! I'm not really sure about this guy, and it's uncomfortable." That's a big fear that people have.

If you're a syndicator listening to this, I'm telling you right now that I've interviewed a lot of passive investors, and that is a resounding theme among them is making sure the person they want to talk to is trustworthy.

[00:12:08] WS: No doubt about it. Like you said, they're investing in a business more than they're investing in real estate. Ultimately, that businesses is that operator and their systems.

Lucas, as far as a passive investor that's starting in this business, I know you said you'd look to invest passively, and that's really I think maybe where you started to learn about the syndication business or what opened your eyes to this type of business from investing yourself and starting investing in single-family or smaller multis.

But as far as investing in smaller multis versus larger, I know you talked about economies of scale and some of those things. But I'm just that passive investor that says, "No. You know, I just want to get my feet wet over here with this single-family or with this duplex," or that type of thing. How do you advise them?

[00:12:48] LM: Yeah. I think the biggest competition to a syndication is the turnkey model, and I talked to a lot of investors on BiggerPockets, people who call me, people who reach out and they're saying, "Yeah, okay. 8 to 10%, maybe up to 12% cash-on-cash return. That's nothing. When you compare it to what this turnkey operator is telling me."

I kind of chuckled to myself. I'm like, "Hey! That turnkey company, they're just projecting those returns just like you and I are. They can make extravagant claims about their return metrics but do they have the numbers to back it up? Do they have the track record to back it up? Do they have spreadsheets they're willing to share with you that back that up?"

Most of the time, they don’t, but the biggest competition with this turnkey model is that it takes a lot more cash. Sometimes, up to a hundred grand just to buy one single-family home. I mean, you’re not done. If you buy that single-family home, like I was saying earlier, they tear down a wall and find plumbing issues. That's just the start of your problem, right?

If you invest $100,000 into a turnkey property, your downside could be double or triple that if things go really wrong. If you invest a hundred thousand dollars into a syndication, in most cases, and I can't speak for every operator, but the [inaudible 00:14:00] once your principal is gone, right? Just like a business, if it goes bankrupt, it goes bankrupt. The lender is not going to sue you as an investor to recapture anything, things like that.

Once I start to realize that, “Hey! This is a lot more professional than me trying to figure out all this turnkey stuff on my own,” I’m just going to go towards the professional businesslike atmosphere.

[00:14:22] WS: Lucas, what's been the hardest part of this syndication journey for you?

[00:14:26] LM: Finding the right people to partner with. Hands down, if you would've asked me a year ago, I probably would've said finding the right properties or finding the right management company, but truth is it all circles back to figuring out who to partner with. Once you figure out who you want to trust in this business and who you want to continue to work with in this business, problems solve themselves at that point. You start finding really good properties. You start finding really good management companies.

Unfortunately, I’ve had some situations that are hard to deal with when it's the people that you're working with. That’s really made me refocus this year in 2020 on narrowing my scope of people I'm willing to work with and really maximizing our benefit to each other.

[00:15:09] WS: Great advice because it can either accelerate you in a hurry or push you way back, right?

[00:15:16] LM: Yeah. Big time. Bit time.

[00:15:18] WS: How do you prepare for potential downturn?

[00:15:21] LM: That’s a great question. That's another huge fear that people have is, is it too late to jump into multifamily. Is 2020 too heated? When is the next recession? That’s a resounding question I get probably from 60% of our guests, and what I can say is nobody has a crystal ball. So anybody who says that they know what's going to happen, they don't know what they're talking about.

But the more I learn about macroeconomics and even microeconomics down to the submarkets sometimes is the more I learned, the more I'm not sure. I started this journey and I’m thinking, “Oh! You know, I know a crash is coming soon. I got to time this market right.” The more I educate myself, the more I realized like I don't know when it's going to happen and I don't even know if it's going to real-estate-specific.

Further, going down that rabbit hole, I don't know if it's going to be flipping. I don't know if it’s going to be luxury homes. I don’t know if it's going to be new builds. I don’t know if it’s going to be existing product. Who knows what the next recession holds for this, but the way I'm accounting for that is my IRR projections. So internal rate of return projections are heavily weighted towards cash flow, sometimes up to 50%.

I think that's one metric that you can count on to float you through some of these hard times is just having cash flow and having a good buffer, breakeven occupancy, breakeven rents. Things like that is what I'm focusing on and making sure that my investors are going to be at least stabilized through any potential downturn.

Then on the financing side, I love low fixed rate, long-term debt. I'm okay with a prepayment penalty because I don't really enjoy selling. That's a couple ways I'm protecting that downside.

[00:17:03] WS: Awesome. What's a way that you’ve recently improved your business that we could apply to ours?

[00:17:09] LM: Recently, I built a spreadsheet that is there's tons of pages on it and tons of things, but I’ve basically focused down what I do on a day-to-day basis. I wrote everything down; answering emails, taking phone calls, everything on a spreadsheet. Ranked it and realized that once it's on paper or on screen, you can really start to realize what you should and shouldn't be focusing on.

Sometimes, that takes a couple days to kind of realize, go through actually what you do; snacking, taking walks, scrolling social media. Things like that go way down to the bottom of the list. Things like answering investor emails go way to the top. Something I did is build that spreadsheet to track on a monthly basis what I'm doing and really keep track of keeping myself accountable to the promises I made to meeting my wife, my family. Things like that really help me. It might not work for you but it's helped my business a lot.

[00:18:11] WS: As an operator, what’s your best advice for caring for investors, so they want to come back to the next deal?

[00:18:16] LM: Always being available, right? Always being accessible. I tell my investors, “You know, if you're okay with kids screaming in the background, you can call me anytime. I might not answer if it's 2:00 AM but I'll get back to you as soon as possible.” I tell them I can’t always predict what's going to happen. I can't guarantee you're going to make money on this deal. I can't guarantee you're not going to lose money on this deal.

But what I can guarantee is that I'm always going to be willing to take your call and explain honestly and ethically what's going on. That's the most you can expect out of a sponsor, and so I'm willing to provide that.

[00:18:50] WS: What’s the number one thing that's contributed to your success?

[00:18:54] LM: Good question. I want to say luck because I do feel like I've been lucky or blessed up to this point. What's driving my success right now is really consistency. It's consistency. Like I was talking about, part of that spreadsheet that I built out is a couple KPIs or key performance indicators of what I need to be doing; deals underwritten, offers sent, investor calls had, things like that that I can keep on top of. Just truly grind out consistency is what's really keeping me afloat right now.

[00:19:27] WS: On that spreadsheet, did you label like time for each thing, like this is how much the time allotment or like scaling them? This is the most important things on the list down to what's least important.

[00:19:38] LM: Both, yeah. Every day, I'd open my journal and say, "Okay. What do I need to focus on today?" Sometimes, I do have to go pick the kids up at school or something where it's not – That's not making me money, right? But if I can time block in a couple calls during that to driving to that meeting, then I'm going to do that.

But really, it's prioritization of a couple key items that I need to grind out today and today only, and then an overall weekly and monthly picture of, "Hey! I'm spending too much time on social media, right?" That's one of my caveats. I have a tough time with that.

So time blocking and really doing these things called sprints where I do 90 minutes sprints of I'm going to go away and turn my phone off and do 90 minutes of work. Then I'm going to go throw the ball with my kid or play Legos or something. That's really what I have been doing lately.

[00:20:29] WS: Playing Legos?

[00:20:30] LM: Well, a lot of Legos, right?

[00:20:33] WS: I would say that's time well invested.

[00:20:35] LM: Yeah. My kids love it.

[00:20:38 WS: Lucas, thank you so much for your time. Tell the listeners though how they get in touch with you and learn more about your podcast as well.

[00:20:44] LM: Yeah. The podcast is called Fear Free Passive Investing, and the website is fearfreepassive.com, and that'll take you to the podcast. That'll take you to our YouTube channel. I'm trying to crank out a lot of content this year because I think there's a big need for that lately, is there's not enough synthesized education for passive investors where they can just go and watch two or three videos and get a good idea of what they should ask. That's really what I'm focusing on for 2020, but you'll be able to contact me at those places too.

[00:21:15] WS: Awesome, Lucas. That's a wrap.

[00:21:17] LM: Thanks, Whitney. I really appreciate the invitation.

[END OF INTERVIEW]

[00:21:19] 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]

[00:22:00] 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]