EPISODE 513

[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 William Walker. Thanks for being on the show, William.

[0:00:32.7] WW: Thank you, Whitney. Excited to be here.

[0:00:36.5] WS: Yeah, I'm glad to have you on the show William, I know you and I met during a mastermind that we were both a part of and San Diego.

[0:00:42.7] WW: That's right.

[0:00:43.1] WS: It seems like it's been so long ago. I don't know if it was six or eight months ago or something but anyway, you know, just having a few conversations with you there, I knew you would be a great guest and so I'm really looking forward to this in you sharing your expertise.

but a little about William, he's a CPA in the state of Tennessee and a registered appraiser in Georgia, has obtained a diverse experience in portfolio, single family asset value evaluation, transaction, due diligence, evaluation review, quality of earnings analysis, construction and property management through his work as a consultant with Ernst and Young in their transactional real estate practice and as a managing partner with 4M REI in the private equity sector.

Since 2017, while working in the private sector, he has been a general partner on over 55 million dollars of multi-family acquisitions. William, thank you again for your time, give the listeners a little more about your focus right now and let's dive in to your super power.

[0:01:40.5] WW: Yeah. Thanks, Whitney. So, our bread and butter in the business is value-add multi-family and my background comes a little bit form the corporate side of the business as you said. I started out as a CPA, good old bean counter coming out of school and I went into that focus really to have a better understanding of business not knowing exactly what I wanted to get into.

But as that story has progressed, I've really dived in and gone full-time into multi-family starting on the consulting side of the business with Ernst and Young and was able to work with some really cool transactions such as post property acquisition or Mid-America acquired post properties, which is a 25,000 unit portfolio transaction that I was able to work on. And then got involved in some masterminds as you referenced that we actually met that and kind of saw the business from more of a boots on the ground entrepreneurial side and ultimately gaining confidence to go after that private side of the business.

But since about March 2018.I've been full-time in the business hunting deals on a daily basis, looking for those value-add opportunities where we can come in and put an influx to capital, manage it well and ultimately pay a good return to our investors.

[0:02:58.8] WS: Awesome, I'd love to hear a little about your maybe your first deal or first syndication and then we'll kind of fast forward to some of all of some stuff that you and your team are working on now.

[0:03:08.2] WW: Yeah, sure, first larger multi-family deal that I did was in 2018 and it had probably been two years since I had started really focusing on the multi-family side of the business. And I would accredit that to working with some great partners. But it was 160-unit property in Georgia and found it, I was in a ULI meeting which is the Urban Land Institute, more known for their new construction but great organization in that we're going to be a part of.

I met a lady there and got to talking with her and she said, "One of my good friend's husband works you know, for a lending institution, he's in multi-family, I think you guys should meet." And at the time, I didn't think a lot of it but got her business card and she made the introduction. But ended up you know, becoming pretty good friends with this guy who originates debt for Fannie Mae and Freddy Mac and we touched base almost daily at least once a week for you know a good five or six months.

He was asking me what I was looking at. I was asking him what he was lending on and it was kind of – just kind of grew from there. But over that period, we got more comfortable with each other and about six months in, he called me up one day and said, "Hey. I've got a deal that the bury backed out on and you know, the broker's looking for a plug basically. So, are you interested?"

I said, "Of course. You know, send me the information." We underwrote it real quick and before we knew it, we had a deal on our hands and that was the first one that like I said, first multi-family that I had been a part of and done. But ultimately, I accredit it to a relationship and doesn't always have to come from a sales broker either.

[0:04:51.0] WS: Wow, you didn't really see that coming from that relationship at all, right?

[0:04:54.7] WW: No. Unfortunately, he hasn't given me any more like that, I like to tease him, I'm going to get at least one a year out of them. But that was the only one I've gotten so far but he's gone on to place the debt on several more of our deals. We got a good working relationship with him.

[0:05:10.8] WS: Okay. That deal, I mean, you know, tell me about being able to do a deal that size, maybe a couple of key factors, you know, as a first deal. Most people listening, I think if they're pursuing that first deal still, I mean, 160-unit deal for your first syndication seems pretty overwhelming I think to most people. If they haven't done a syndication yet.

[0:05:30.2] WW: Yeah. To provide a little context to say that was my absolute first deal would probably be a little bit of an overstatement. I started back in 2014 when I was in college. I was a BiggerPockets Junkie, listening to every podcast and everything I could get my hands on. I ended up buying two single-family properties right out of school.

The first one I had a letter for Ernst Young basically saying you know, "We're going to pay you this," and I leveraged that to get a mortgage with a local bank in Nashville where I had a relationship and I moved three of my college buddies into that house.

For the first year, that was, I cut my teeth on a single-family and then probably 11 months later, I had borrowed against that house, taken a HELOC out against the equity and Nashville was rapidly increasing, I had put down a sizeable amount of down payment that I had some equity I could borrow against.

I use that HELOC to buy my second little property. And at that point, it's not the right move for everybody but I was pretty well maxed out on my leverage, I think if I haven't had an HVAC go out at that point in time, I'm not sure I could have afforded to fix it. But I was right around 2016 and I realized, "Okay, the single-family is great, good investment but it's not scalable and not really where I want to go with my career and investment strategy."

Started looking for different options and that was about the time that I went to work for EY and their real estate group down at Atlanta. They were purely focused on large multi-family transactions for the most part.

When I got into that group, I got a really good taste of how these deals were getting done such as Mid-America, buying the 25,000-unit portfolio post properties. I saw the models, I saw pretty much everything and how they value the property, who they were raising funds from, what those splits were. And at that same time, I joined a coaching and a networking group so had very little spare time, very maxed out on leverage, I put some money on the credit card that I didn't have to join that networking group but ultimately, that networking group put me in touch with my business partner today.

It gave me the confidence because I was seeing it from an institutional level and you're at one thing. But it's hard to I think imagine yourself buying properties at that size. But when I was able to see it on a smaller scale and get around people that weren't institutional and were raising money, boot strapping and putting it together, that gave me a lot of confidence. I ended up quitting Ernst and Young about two years into it for better or for worse, for better now. But I swam around for a good eight or nine months, I was helping some single-family investors, find deals in Chattanooga, in Nashville. I helped an investor buy a 16-unit property.

It was a long time leading up to that first deal as I call it. But during that time, I was putting in my work, a lot of sweat equity, saving what I could, you know, learning the ropes and ultimately building my network and my relationships.

And in early 2018, I joined a company that really had some firepower behind them, they were maybe two or three years into the business before me and I was able to come in and kind of put gasoline on the fire so to speak. But really, enabled me to grow. But once that first deal hit, I think we got in I mean, it counted all the first deal that you always hear about right, we probably had two under contract within the next two or three months. But that first deal was July 11th 2018 and we went on to close another – a total of about 1,500 doors to close out last year in 2019.

If anybody has an example of the law of the first deal and that momentum, you know, I can really attest to that. But, there's a lot of work that led up to that that I think you don't always hear about, right?

[0:09:32.6] WS: You weren't just lying on the beach the whole time is what you're saying?

[0:09:35.1] WW: That's right. That's exactly right.

[0:09:37.1] WS: That's what everybody says, right? " He got lucky." You know, it happened overnight. Overnight success is what you hear all the time but they don't see you've been working towards that for years you know?

[0:09:45.9] WW: I was eating peanut butter and honey sandwiches and ramen noodles for a good eight months just so I didn't have to work so I could focus on multi-family.

But you know, through that struggle and through that pursuit, you ultimately find people that are on the same path and that your skills meet their skills and that's ultimately what the main catalyst was. This is very much a team sport and it's hard to get the deals done by yourself.

[0:10:08.3] WS: Yeah. I wanted to highlight, I mean, even though you talking about that process, to getting where you're at now, just getting that first deal. I mean, it was gradually like your network was increasing and improving constantly.

[0:10:19.3] WW: That's right.

[0:10:20.2] WS: You know, it was increasing, improving, you know, who you were connected with was changing and all of a sudden you found this other team and you know, you all united and like you said it ignited the fire even more. And so here you are, what? 1,500 doors within a year and a half or so. And you all are doing some amazing things.

You know, now, tell me like your specialty inside of your all's team now?

[0:10:45.7] WW: I came on originally as an Acquisitions Director, purely focused on pursuit initiatives and underwriting deals and trying to find new deals and as I've grown with the company and have gone on to take on more roles and responsibilities. My main focus is still acquisitions, but I'm more involved in the accounting and the finance side of the business and helping to structure internal controls from a recording standpoint.

Not only to our investors but also just property-level accounting. I'm also involved in the marketing and trying to get a little more following like my friend Whitney Sewell here, because as you know, it's very important to build relationships and social media is a great tool to do that. That's something that I've been focused on here and then construction, I'm not the lead construction person on any of our properties.

But that's a big component to all of these value-add investments is understanding what it's going to cost to get to where you need it to be. That's something I enjoy as well. But if I had to break my roles and responsibilities down into buckets, it would be acquisitions, accounting and finance, construction, a little bit of marketing.

[0:11:55.1] WS: I mean, you think with numbers, it kind of goes back to your specialty, right? Your training and lots of experience as a CPA, I'm sure.

[0:12:02.6] WW: That's right yeah, very comfortable with the financial statements and pouring through those. It's not the only thing I do or my favorite thing to do but it's very important to understand that when you're underwriting and analyzing properties, knowing what to look for, right?

[0:12:15.4] WS: Let's dive into a recent as a multi-family deal, I know you all are even remodeling an office building right now. I know as well and it's incredible to hear you know, just what all you are working on but let's dive into a recent multi-family deal that you all closed on?

[0:12:30.7] WW: Sure. I'll just give you the last one that we purchased and went under. It started probably May of 2019 when we first started circling this deal and working on it and ended up probably closing on it in November of 2019. A very long process, it was 208 units in Georgia. And we bought it for about 37 a door. So, a little over seven million, the property was 80% occupied when we purchased it.

We bought it from a long-time owner who had built a property, fully depreciated it, fully paid it off and was just looking to – this guy was still showing up in the office every morning at 7:30 AM.

You know, old school real estate investor. Really respect what he had done. But just getting into a point in his life where it was probably time to step back a little bit, right? Not show up to the office every day. I think he was 83 years old.

[0:13:25.2] WS: It still blows my mind that there's still are owners like that, that are operating – you know, I see it all the time in like, let's say, a 30 unit or 40-unit property. But a 280-unit property is still hard for me to believe there's still, you know, like owners that are self-managing, that's been there that long.

[0:13:40.3] WW: Yeah, it was pretty cool to see, I think it kept him young but it's a good goal to where it's worked. I want to be that, a real estate guy that's still doing deals in his 80s. Yeah, we bought that recently in November, we had to put a bridge loan on it because it didn't qualify for fix-rate agency financing.

We raised about 3.2 for that property. We are going to put about two and a half to 2.7 in CapEx into that property and over the next 12 months we'll do exterior renovations such as roofs, siding, windows, doors, parking lot.

[0:14:16.6] WS: What year was this property?

[0:14:18.4] WW: 1986.

[0:14:19.6] WS: '86 okay.

[0:14:20.8] WW: Good vintage. It had good bones. It was just tired is the best way I can describe it.

[0:14:25.9] WS: How did you find this deal?

[0:14:27.3] WW: This is through a broker relationship that we had. A sales broker put us on this deal but it was a little unique in the fact that he didn't have a listing agreement with the seller and the seller wasn't really – the seller had a broker's license. So, there is a lot of negotiation going on directly with the seller and that by the end of it, the broker that had introduced me to the guy wasn't really involved in a lot of the conversations.

I had his number directly and met with him several times with along with my business partner. But ultimately that first line of communication did come through a broker and of course we paid the broker at closing because he didn't have a listing agreement. And was basically saying he wasn't going to pay the broker fee. But I can't say we wouldn't have found that deal without a broker.

[0:15:15.3] WS: Nice. It is neat though that like obviously you all value that relationship so much you are not going to go without paying him for that connection.

[0:15:22.7] WW: Absolutely, if we really wanted to be the swindlers, we could have said, "Sorry, you know see you next time," kind of thing and he really would had no recourse. But just like you say, relationships are everything in business and especially this business. So, we wanted to incentivize them to keep coming back.

[0:15:40.7] WS: Yeah, I know you all better than that or you know that is awesome. What delayed the closing so much? I mean it started in May and it didn't close until November.

[0:15:48.5] WW: I think part of it was the seller. He was an older guy and he wasn't in a huge hurry to sell. There is also a little bit of geographic challenges just from getting back and forth and meeting this gentleman. But I can't say it is definitely not the fastest deal that we signed up and close but we negotiated pretty hard on the deal. He just wanting a higher price from the beginning and we were trying to get to a lower price.

But we just went back and forth forever and you'd called him and the phone call might get returned today or the next day. So, it was a combination of him not being super motivated and just negotiating back and forth.

[0:16:30.5] WS: So, what kept that ball rolling? I mean obviously you all wanted to stay on top of that and get that under contract but over that period of time, what kept that going so that you got it to closing?

[0:16:41.4] WW: Yes, when we first started meeting, he was just feeling us out I think and some of these older owners I think more and he still lives close by. So, I think he wanted to feel comfortable with who he was selling it to for one but we went under a 90-day contract. So, we probably talked very good a month or two before we actually signed the contract and then it took us another three months to close it beyond that. We wanted an extension period.

But just when you look at enough deals and this is something that I encourage younger or people that are getting into the business to do is just underwrite as many deals as you can.

Because even if you don't identify trends at the beginning, the more deals you underwrite, the more likely you are going to start seeing trends. So, this is just the property where you know I didn't even really have to underwrite it to know that if we could stabilize this deal, it was going to work for our model.

And it was worth pursuing. And with the older gentleman he valued things more than just money and moving as quickly as possible. So, building I think that trust and that rapport with him was something that I knew he would, it was important to him as well and yeah and just seeing a good deal and knowing a good deal when you see one.

[0:17:59.2] WS: So, what's the hold period or expected for that property?

[0:18:02.4] WW: So, we're under a bridge loan on that property. We got a 36-month term on that so we'll need to refinance or sell that deal within that timeline. But from there, the decision is either to refinance and keep it long term or to sell it and realize that equity that we have created for not only increase in occupancy but also increasing income and reducing the expenses. There'll be value creation in all three of those components.

Our bread and butter is more of a long term hold where we like to set our debt up for a 10 or 12 year structure. So, if we need to hold long term, we can but if we can realize our investment strategy within three to five years, we can exit it sooner than our debt term. But we always try and get the longest that we can because as I think you may agree usually time will heal all wounds in real estate if you could just hold on for it long enough.

But obviously we don't go into it with that attitude but it is just a good way to mitigate risk on the front end especially where we are right now and just not having to refinance or sell too soon.

[0:19:10.2] WS: Are you all nervous at all about a bridge debt right now with everybody claiming there is a correction coming?

[0:19:17.0] WW: That's a good question. You know I think we wouldn't do a bridge product on just any property. And I think where people take more risk on the bridge products is when there is not a big deferred or there is not a big occupancy issue. You know they might just be trying to take income from A to B and need a bridge loan to do it. But there is really not that big component of the property. I mean this property is 80% occupied and it was really for no other reason than the owner was just not putting money back into it.

And he was just kind of comfortable, you know? It is coming flowing for him so we knew that we could come in and we could move very quickly. We've got a construction team that can be deployed and get a lot of these jobs done very quickly and we can get that occupancy up very quickly. So, we don't even really have to increase income in the standpoint of we have to push rent.

We really just have to put butts in seats and based on our analysis and research of the local market, the average occupancy was above 90. So, for property to be both in the 1980s is sitting around 80% occupied, you know given the nature of the seller, we felt comfortable and confident that we can execute that business plan but that is a risk you take.

[0:20:32.3] WS: Yeah it seems like management it sounds like was a big issue there or just optimizing that, which you all are going to probably already have done. You know it's just I'm sure made a massive difference. How is the first couple of months been? Quickly, we've got to move onto the last few questions.

[0:20:47.0] WW: Sure, the first couple of months we always keep the current staff and just see how they were going. We did end up having a manager change over at about day 60. And that was truly because she had been there for about 11 years and I think she was just a little resistant to the change that was going on at the property. But we're coming in and executing our plan and started interior renovations and as well as exterior renovations but as of now things are on schedule.

[0:21:16.1] WS: Cool. Okay, well unfortunately we've got to move on to just a few final questions. But Will, what's been the hardest part of this syndication process or journey for you?

[0:21:24.7] WW: I would say in the beginning just kind of staying persistent. You know there is so many different things that can kind of kick you in the teeth in this business and be discouraging, right? Whether it is not being able to find a deal or not finding investors or there is a number of things.

So, I think people and especially in younger generations and in the day and age we live in are expecting things to happen faster than they do. Not to say that they can't accelerate quickly. But I think a lot of people probably quit too soon. Just finding that grit and persistence. At the end of the day it is not rocket science what we do. It just takes a lot of grit, persistence and you got to educate yourself too. But I think a lot of people want the results but they don't want the work and the hurt to get to it to the results.

[0:22:11.7] WS: What you say eating ramen noodles and ham sandwich?

[0:22:15.2] WW: Peanut butter and honey sandwiches that was a staple diet of mine. That's the secret.

[0:22:22.0] WS: So, how are you all prepared for this potential downturn that everybody is talking about?

[0:22:26.5] WW: We buy properties with a lot of cushion and we are very concerned on what we purchase and we probably lose deals because of that. But the deals that we buy, we feel good going into and even if we do have a pullback in the economy unless there is a massive job loss and massive exodus of people out of the cities that we're invested in. Typically what we are seeing is occupancy stays consistent or even trends up a little bit in down times.

You just can't bet on refinancing on those times. So that brings me back to our long-term debt strategy is one way to mitigate that risk. But just buying conservatively really knowing the numbers and not depending on the depreciation from day one.

[0:23:10.6] WS: What's a way you've recently improved your business that we could apply to ours?

[0:23:14.9] WW: We are focusing on controls a lot right now. We took on a lot last year and if you've read the book, I'll do a plug for *Traction*. We are implementing some tools and strategies from the book *Traction*, just to help us get better systematized, better structured. There is a lot of buyers to put out on a daily basis and property management and buying these properties. So, trying to get to a point where we are more preventative versus reactive.

[0:23:42.8] WS: What's a way that you all are finding investors right now?

[0:23:47.1] WW: Oh, you know I have to give credit to my business partner. She has raised the majority of the equity that we've had to buy these deals. But I think she would probably tell you that it's a lot of networking. I don't think it happens overnight. There is no magic bullet. I think it is getting in front of people that are interested in investing in real estate and sharing your story and building confidence in them that you can accomplish and ultimately be a good steward of their money.

[0:24:13.6] WS: What's the number one thing that's contributed to your success?

[0:24:16.8] WW: I'd say persistence and partnering with the right people. I mean it is a team sport and you know, it is hard to get into deals by yourself. And once you have a good team that everybody is really aligned and moving into the same direction that it's got to be people.

[0:24:29.8] WS: And how do you like to give back?

[0:24:32.2] WW: I like to give back anonymously. You know I have always believed in giving back in one form or fashion, you know whether that is financially or whether it's giving time. But I never haven't really sought it out. I just always kind of had my eyes and my ears open. And typically, when I have the opportunity to give, you know I see things that cross my path it just feels right for me. You know I will do another plug here but one of the organizations that I donated to recently was Underground Railroad.

Which is an amazing organization that helps take kids out of sex trafficking, which is a very hard topic to discuss and think to imagine that it goes on in this world. So that was just proposed to me to a networking group that I was involved in and it just felt right to me and you know, it just came up. So, you just got to look for those kind of opportunities because they are everywhere, right?

[0:25:24.5] WS: It is. I appreciate you bringing that up and giving back in that way. It is a crazy thing how much of that exists and so many of us are just oblivious to it. We just have our blinders on. We don't even know any of that is happening. But it is just disheartening how much of that is happening and we don't even know it. But I appreciate you giving back and even just making us all aware of that just even saying that William.

I am grateful for you time and being on the show and I welcome you back sometime. I would love to even talk about that deal a little more or just champion this small analysis stuff but tell the listeners how they can get in touch with you and learn more about you?

[0:25:57.3] WW: Sure, so I am on social media @willwalker_3 and then at our company website, 4mrei.com.

[0:26:06.8] WS: Awesome, William. That's a wrap.

[END OF INTERVIEW]

[0:26:09.8] 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]

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