EPISODE 538

[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 Chris Wooten. Thanks for being on the show, Chris.

[00:00:33] CW: Thanks for having me.

[00:00:34] WS: Yeah. I know we were just talking. We're both in the same mastermind but we were at an event not too long ago, and it's like everything gets so busy. I know that you were in the middle of a couple deals, and we didn't even get to hardly catch up or introduce ourselves other than maybe shaking hands or something, so pleasure to have you on the show.

A little about Chris, in case you haven't heard of him before: He's retired from the Marine Corps after 20 years of service, performing duties in aviation asset management and constant process improvement. Chris, thank you again for your service. I just want to say that right away. Grateful for that.

[00:01:07] CW: Thank you.

[00:01:08] WS: He operated four single-family renovation teams remotely from where he was stationed in four different cities while still on active duty. That's not easy. He studied and exercised various real estate investing strategies to find the strategy that most fit his objectives of project creativity, flexibility, stability, tax advantageous, and scalability.

Chris, I'm looking forward to getting into this and in just what your focus is right now, because we all want those things, right? You did lots of research and I just love your background too and just before we started recording how you talked about your focus was process improvement and how you said do more with less. It couldn't be more timely than what we're experiencing right now and just that experience you have.

Let's jump into that, but first tell us a little bit about getting into real estate, like why. You got a great career in the service, which we're grateful for, again. But now, why get into real estate? Give us just a brief how you got there.

[00:02:12] CW: I spent the first 15 years in the Marine Corps largely on my own, traveling all over the world. I loved every minute of it. But then I met my wife, got married, and everything was so good when we were still moving around as the Marine Corps deemed necessary. Then my oldest son came along, and I was like, "Okay, things are starting to change." Then my second son came along, and I'm like, "All right, I'm ready to be home a little more often and I wanted something that I could control more of my schedule."

One of my commanding officers had always told me, he's like, "The products that you come out with, that come out of your department, they're nothing short of amazing and they always surpass anything that we could hope for. But you are a real pain of an employee." I was like, "I guess I need to be my own boss. Great, I'll do this." So, I sold the freedom in real estate investing and just knew that I wanted to build that out.

By that time, I already had some single-family rentals. I had already started looking into wholesaling single-families, and those things just really weren't for me. They couldn't hit my objectives. I accidentally got into apartments and I sold that scalability focus of effort in being able to get more work done with less funds and less time. I was like, "I like that model, and it's much more tax advantageous." There's all kinds of strategies you can take into with that; cost segregation, depreciation, etc. I just kept working with that and letting that grow and growing my knowledge in that space.

As I was getting ready to retire, I decided I was going to learn syndication because I already had two buildings of my own but I was running out of capital. So, I'm like, "How do I grow and learn this syndication thing?" I started digging into syndication a little over two years ago now. Getting into it, understanding it, understanding the legal pieces, the partnership pieces, the taxation pieces, and learning how to do all those things. I like to understand things on it. I call it a granular level, so a micro level, whether it be a project component or the administrative pieces. I would run through it the first time on my own and know all the granular pieces of how it all works.

I spent some pretty decent time digging through, going through projects, viewing properties, talking with legal teams, talking with operators, and just putting it all together. Then I got into my first syndication. It's been a little over a year ago for my first syndication, and I was able to just in lockstep with the legal team, the lender, everybody. I knew exactly what to expect, and it was just – It made it a great process for me and I just – That's kind of how I developed into doing the syndication and I like it.

Obviously, I have continued to refine it, because in that process I saw some waste. That's part of my process improvement hat coming back to me. I'm like. "Okay, we need to trim out some of the waste and just making some better processes."

My next step, I will probably take down one more property just with my regular syndication model but then I am documenting my processes so that I can start building out my team. It kind of – This is happening in the background. But going forward, it's going to allow me to exponentially grow, and that's what I'm looking forward to.

[00:05:45] WS: Awesome, okay. I wanted to go back a little bit. You said that like your first syndication was about a year ago, and you studied and analyzed on a granular level to learn the process to really dive into know what to expect. You said like you knew exactly what to expect.

I would say there's very few people that study enough or study just enough in general but to understand that much about the process before they've done a deal, and I wonder like what did you learn know though that maybe you didn't expect in that process. Or did you just study enough that you did everything you expected happened or was there anything that happened that was unexpected?

[00:06:21] CW: No. I can't say there was anything that was unexpected. We definitely exercised all of the extensions that we had built into the contracts. Those are things that I wasn't necessarily expecting but I had wargamed into the plan. The lender missed one of the timeline marks, and then the engineer came back, and we had to jump another timeline mark where we had these things pushed into the contract, so it wasn't an issue. We had to push some extra honest money into the fund, but it wasn't an issue. We already had it planned out, wargamed, and the scenarios were there in case we needed them.

I did learn a little bit more depth on the SEC attorney's role, and that was part of my headache. When I was learning the syndication model, it was all too often I would come across operators that would just be, "Oh, that's the SEC attorney. Just let them handle it." I'm like. "You pay them but how do you know they're doing it right?" I really wanted to know, so I'd interviewed several. I had had a couple walk me through the bits and pieces to get to it and I myself had invested, so I could see all the pieces of theirs and then go back and talk to another attorney.

It's just getting that exposure. It keeps you from getting into the analysis paralysis component that so many people talk about, because you can analyze so many different possibilities. But until you actually see one in the workings from someone that is reputable that you've researched and believe in, you can't really put the model to work before you go in it yourself. That just kind of helps propel you is you study it, you model it, you go along with somebody that you have some rapport with and you trust. By then, you should be able to go pretty well on your own with it and know what's coming up.

When we got into our syndication, I didn't have too many of the attorney side surprises when the operating agreement was coming out and subscription agreements were coming out. How we wanted to get it all structured, I was ready for all that. So it just definitely made things flow smoother just taking the time to study it, exercise it, and then go.

[00:08:35] WS: Yeah. I love how you prepared yourself and even interviewing numerous attorneys. You didn't just pick one and let them handle it. We've interviewed numerous as well obviously on the show or business offline as well. We've talked to so many different attorneys and just to understand, because they don't all do it the same way. That’s for sure. But you can kind of believe that if you don't ask. You can think, “Well, it’s just the process of syndication.” They write a few documents and whatever, but it's just not – They’re not all created equal. That’s for sure.

Tell me a little bit more about just your training process for yourself, because I feel like you did a great job of educating yourself, so you knew this process. You had it laid out. I feel like the listeners and myself could benefit from that by just how you really dove in enough to educate yourself. I feel like sometimes people don't know where to go to educate themselves, especially when we start talking about syndication. They’re like, “Oh.” It just seems like this thing is bigger than we can grasp when you're used to doing smaller single-family or maybe you've never done a deal. So how did you do that?

[00:09:35] CW: I don't read much. I catch snippets off of headlines and some blog articles and stuff like that. Most of my book content I take from Audible or I take a ton in via podcast. When I was active duty, it was 35 to 45 minutes’ drive one way to work, so I had plenty of time to go through an Audible or podcast. You can train your mind to take that stuff in at one and a half times speed, two times speed, or whatever. I run it two times now, so chipmunk speed, so I can take in a lot of data and retain it.

I took in some BiggerPockets material, but they're very broad range of everything, so they tend to not get really deep on some of the topics. I listened to some other podcasts that were talking about multifamily, how to grow a multifamily. Some of them would start to come in with syndication, and I started to seek out syndication-specific podcast, so then I could start to learn more from those environments. I probably listened – Oh, man. I would probably say well over a hundred podcasts, truthfully, because this was a good year before I went to my first conference.

I prepared myself and just bits and pieces taking notes. I'm still doing the single-family thing on the side while all that's going on but just getting ready for what's to come. Then I went to a conference and I realized at that conference that they weren’t going as granular as I wanted. They were hitting, “How do you review a deal. How do you find a deal? How do you review the deal?”

Then when you're running it, here's what your expenses should look like, but they didn't really get into, "How do you syndicate the deal?" They didn't really get into, "How do you go into closing on a deal and what things you need to expect that are going to be different from any of your experiences if you have any from single-family closing experiences?"

They didn't go into any of that, and I was kind of like, "Ah, I'm not a big fan of this," and it didn't go into the lending protocol differences in the commercial space, which are totally different because you need to be prepared for your KP, GP, LP pieces, being able to talk to it all and explain it. If you go talk into a lender and get hung up on those kind of things, they're liable to give you the stiff arm and go, "We're not going to work with you because you don't know what you're talking about. It's likely that this property could flop, because you don't know what you're talking about."

I knew enough from all the podcasts and everything and the couple of books that I had taken in through Audible that that conference just wasn't deep enough. So I went and found – I started researching multiple conferences and found one that I really liked and went. It gave me the additional pieces of resources that I needed. I didn't necessarily learned it all from that conference, but the one little granular piece that was missing I met three people at the conference that I can talk to later and just networking with people to get those granular pieces. They were all three lawyers, so just it worked out.

[00:12:57] WS: Yeah. Your network is so important, right? It's so important. Conferences have helped me a lot as far as just increasing my network and building teams. Awesome. But I know you and I had talked about how one of your strengths is really the asset management side and underwriting. I'd love to dive into some asset management specifically right now just with everything that's happening in the market as we speak, and so I'd love to know.

Maybe you can elaborate a little bit on learning just the asset management piece, and I'd loved to just dive into what that looks like on a day-to-day basis or your weekly basis and how that's happening, managing with or without the current downturn. Just what that looks like and then maybe what you're doing differently now or in addition to or whatever that looks like because of what's happening. Give us a little background on just educating yourself about asset management and then just like daily processes.

[00:13:52] CW: Asset management. One of the reasons that I got into the multifamily space and even when I was doing single-family renovations, it was the idea of being able to beautify and bring a better product, potentially a better living situation to the residents. I enjoyed that with single-family and I wanted to continue that in the multifamily space. Having the service after service to being able to serve the residents and give them a good environment. See what else we can do to make things better for them is just – You can't put a price tag on that.

When you start to turn a property and the reviews start to change. You'll start to just have people coming in droves wanting to get into your property but not necessarily because of the price. So many people get wrapped around the axle of, "Oh, it's got to be the lowest-priced to have just tons of applicants." No, you don't. It's customer service first. So many people forget about that.

If you start there and then push that on into your property management team, then they're going to maintain the property in a more tidy fashion. I mean, even some of the residents will start to take pride in their own property and they will start to get a property themselves as well.

All those things help you out on the day-to-day physical component of the property. You tend to get much quicker maintenance request and you can look at it from different ways. It's like, "Oh, they're bugging because they've got the small thing happen." But that small thing you take care of it right now on the spot, it doesn't come a big thing later. It is good to have that to where people are wanting to keep things in good working order because, yeah, they're paying a little bit more for it but they're getting great customer service, and the overall environment is better than the surrounding properties. So doing that.

Then like I say, it becomes part of the culture of the property management team and it helps everything build. That piece helps eliminate a lot of the waste. I kind of hinted at as far as you're just picking up around the property, you get faster maintenance calls as far as request coming in, because the resident are more apt to just say, "Hey! I've got this whole thing happening. Come and take care of it. Take a look at it or whatnot," and you're more on top of things and you can get rid of some of those degradating components that could happen later. That helps you out.

Then KPIs, so your key performance index components. I like to look at those weekly and especially early on. Early, early on, first 90 to 180 days, I like to look at them twice a week just to get it. It's sometimes hard to track, especially if your property management team is not used to having all their reports cleaned up that frequent. But you want it tracked. How much do we have coming in and how many move outs? How many move ins? Kind of see your close rating as far as you’ve got X number of people coming in. Here’s how many leases you signed. Or are they disqualified applicants? If so, are they all coming from the same source? You needed to change that source.

You look at these metrics and you get rid of the waste. I mean, if you have an ad out there that's pushing to a long audience and they can't come through your application process, you need to change step one, which is your marketing. You don't need to loosen up your protocols for your residents because you don't want the headaches that may come out of that. That's a whole another wasteful event. You can – There are so many – Process improvement is literally so granular at each level, and there are so many things to intangibly go dive into, but that’s the front end. Get the culture right and you can clear up a lot of the waste in there.

Then your KPIs, if you’re keeping track of your conversion rates, keeping track of your occupancy, keeping track of your expenses, all those things grow together, and the property management team will start to learn what your expectations are, and it just becomes easier.

Your first couple months can be rough, just getting to know each other and you may have different demands than other properties. That's okay and maybe you have to change property management, because they just can’t adapt. It is what it is, but you got to really build that culture. Focus on those KPIs to make sure that you’re tracking what's actually happening and then knowing what lever to pull to find the waste when your KPIs starts to come a little off.

[00:18:38] WS: Great advice and I love just the culture dynamic too and how you talk about like building that first and how much that saves you, just having that and the culture improving or improvement around the property and whether it’s tenants or whether it's the other employees and staff. Can you share any ways that you've helped improve that culture on a specific property even or any examples where you've gotten tenants on board or staff, so they do feel like it’s their property?

[00:19:08] CW: I've got one property. We took it on and we knew it was a solid C but we kept having these interesting events on property. There wasn't damage. There wasn't a crime or anything like that happen, but we were seeing a lot of people walking to the property. We were seeing a lot of shopping cart showing up. It was like, "What is going on," so we did a perimeter walk. When we did our perimeter walk, what we found was the two adjoining apartment complexes, the back lot is kind of back in the woods a little bit, and someone had taken the time to – Well, I guess a good thing here. Taking the time to take our wooden fence, privacy fence panels down. I mean, at least they didn't kick them in. They took them down, so, "Hey, thanks," and just slid them aside.

But because of that, they were using or are property as a thoroughfare, so we had all these random people that would walk through our property at all hours, because that was one of the big things we heard about when we came on site was the residents would like more exterior lighting. The potential for security cameras on site, and we're just like, "There's nothing happening that's kinetic, so there's something else." It was just those – The passers-through come to find out that the passers-through were also keeping some of our residents that were distributors in business.

What happened was when we fixed the fence up, we stopped having that thoroughfare. We also went another step to lock up our exterior doors of our buildings, and then the residents had their exterior building key and then they had their door key inside the building.

Well, that crushed all of our through traffic, and the whole property started turning. We had more people and more of our resident base that would sit out on their balconies. They would hang out by the picnic tables. They've requested grilling stations come up this spring. I was like, "That sounds like a great idea to me. Let's make some gazebos and grilling stations," so, we're putting that into the budget.

But the residents have definitely started coming out of their shells more, and we've gotten rid of some of the knucklehead residents that weren't, like I say, anything necessarily kinetic or harmful to anyone on property. But just stuff that we didn't want on property. Just by closing up those two sides of the fence, it started to take care of all that to the point that even last week – He's not the chief but he's like a lieutenant with the local police force. They came by and kind of give us a kudos of how they could definitely the see the change of environment just in our block, because you didn't have people hanging out on the sidewalks out in front of our property anymore. You didn't have shopping carts stacking up in front of our property anymore, dilapidated cars that were getting left in the street in front of our property anymore.

Those things started happening, and so not only did the residents take note but even the city police force has taken note that just – Like I say, all we did was we closed off those two sides of the fence and all these changes started happening. We did lock up the buildings like I said. We just reinforced to the residents that when they are in their building and their units, it's a safe place. They definitely took that to heart.

[00:22:34] WS: Nice. Safety is so important and that they feel safe. That's for sure. I appreciate that. What about the KPIs? We won't have a lot of time to go back into this but, yeah, I love how you mentioned just numerous things here. You talked about weekly review and how much traffic, how many move-in and outs. Even you elaborated on something I wanted to highlight was are they disqualified. The people that aren't renting and why are they disqualified and is there a lot of those and even thinking about changing your advertising. Why are we attracting the ones that are not as qualified? I love how you brought that out but are there – You talked about occupancy expenses, conversion rate. Any other things that you mentioned, like what are some demands that maybe PM, property management companies may not be used to? But anything else that maybe you've added to that KPI list that you want to see every week from your management company that may be important?

[00:23:28] CW: I mean, the big thing is the expenses, and we deep dive many of them. If we get an out of the norm invoice come across table, whether it be from a pest exterminator or a unit's water bill or a power bill that's just out of whack, I'm quick to say, "Hey! Put it into trouble call and let's have maintenance go check that out, because something's going on." When we got into the property, that was another one of the process improvement pieces was to go through and do a full green package on the property. The first month, you could tell from the month that it didn't have it to the month that the full package was complete our expenses dropped over 30% just on the utility side of the house, so a very large drop in one month.

And we've continue to see that even further decline as the residents get accustomed to it and being able to schedule their thermostats and those kind of things. But we can see the spikes. When there's a leak, it really stands out. The leak can be a flapper valve in the toilet, but it really stands out a lot more when your units are running a much tighter water usage. You can notice those a lot easier.

I had one unit. The resident – It was a football season last fall, and they were running their air fryer out on the patio, but we don't allow that. I was like, "Man, why is this one unit's electric bill so much higher than everybody else's?" So, I sent maintenance over there to check it out. As soon as he walked up on their patio was the air fryer next to the plug, and he's like, "I bet they've been frying out here." It's not allowed, but that's the reason it's so hot. We billed it back to them and said, "Hey! Get rid of that thing. It's – The entrance says no. We say 25 feet away from the building, yada, yada, yada." We were able to catch what they were doing because we've reigned in the expenses so tight.

[00:25:15] WS: Nice. Great example. Just a few final questions, Chris, before we run out of time. Tell me just the hardest part of this syndication journey for you? What has that been just getting started up to now?

[00:25:27] CW: The hardest part for me, I write – When I review properties, I review them at a very granular state. I wargame them out, just to look forward to what could happen and to ensure we have stability going forward if things start to get shaky, which is played out right now, and we don't have worries about our properties. Because I do that, I tend to pass on a lot of properties. Where they could potentially and I – It's hard to think of it now because I'm like, "Whoa! I'm glad I didn't take on this one, this one, or this one." Because we were writing them snug, I like to have a little bit more room, and we ended up not getting them. So. all is well, because we are what we are today, and it was that fast. Literally, we were looking at these just a couple months ago.

I'm glad I definitely stuck to my guns, kept my numbers, and kept to them very tight. What I look for in the margins, what I'm expecting to come out for returns, I've kept those very tight and I hadn't waivered from those. Those have kept me out of any concerns, but I've passed on several that could have been. If weren't where we are today, they still could have been. But now that we are where we are today, I'm like, "I'm glad I didn't have to mess with all that."

[00:26:46] WS: I like to ask people like how they prepare for the next potential downturn, but since we're kind of in the middle of one now, I'd love to know some of those things you were just talking about that said, "Okay, this is a deal we're going to pursue. We're prepared for a downturn, even if we pursue this opportunity." What would a few of those things be for you?

[00:26:46] CW: I like – Obviously, the T12. I want to see that and I want to know that we've got a good spread as far as our net income toward debt service and DSCR is good. I also like to go and kill back a little further to make sure there wasn't some blip in the handful of months that all of sudden brought that thing into where it would be within our range. I mean, I've had some that I've underwritten to where literally you go to month 13, 14, and it's a little askew. You dig into that kind of, "Hey! What happened," and make them answer the mail. Then you really have to – Do you believe them or not?

We had one that, "Oh, it was all CapEx. We spent XYZ," and they were able to give us reports. I was like, "Okay, I'm comfortable with that." But then I had another one, "Oh, we just had a bunch of move-ins. This, that, and the other." Then when we started doing our lease review, not so good on the leasing side. I was like, "Yeah, you just filled spots and then weren't necessarily reporting the concessions correctly."

Those kind of things will definitely keep you out of hot water. But you have to be willing to look on that granular scale and get deep on it to make sure you're verifying that your numbers and your valuation are true.

[00:28:18] WS: What's a way that you've recently improved your syndication business that we could apply to ours?

[00:28:24] CW: Good question. A big thing is for me – I worked for so many years in a vault at the Marine Corps doing the asset management thing, so a lot of my data compilation was all in a vault and my prior office was essentially in a vault, because I didn't have any windows. So, my wife will always make fun of me and just, "Go back in your hole." It was just a little storage room back in the back, because that's where my office happened to fall.

I didn't get out that often. I did a lot of looking at data, a lot of digging through properties, talking to brokers and even just real estate professionals in general, property managers, everybody else to get leads for properties. But because of that, I didn't have the investor bandwidth to take down properties, so my best thing that I did was getting in with a real estate investing team and a mastermind and eventually developed on into a mastermind to where being in that environment and networking with those people, I know they're not tire kickers. They're operators.

When I find my piece that I'm strong at, I go to those other operators, "Hey! Would you all want to partner up? I need help with X, Y, and Z." They're like, "Oh, yeah. I can definitely do that and I can help fund here." I'm like, "Okay, cool," because my investor base is relatively small.

So, I can bring a certain percentage of it, but my strength is being the underwriting and asset management component. So, I need investor relations. I need obviously the investor crew to come onboard, and so just partnering up with people that are doing it and not just talking about it has been probably my best thing. And then, like I had mentioned before, just developing the processes, recording the processes. On our next acquisition, being ready to pivot, so I can start bringing people on, helping to teach them, and letting them work off those processes and let us grow as a group.

[00:30:19] WS: Great advice. If you're not tracking it, you're most likely not going to be able to improve it. Tell us, Chris, what's the one thing that's contributed to your success?

[00:30:30] CW: One thing to success would be just to – I kind of went into this speech when I was doing my retirement ceremony, understanding your why and keeping your focus on your why. My why is having the freedom that real estate investing provides, and it's time freedom. It's financial freedom. It's all these different components. But freedom as a whole, and that allows for me. Part of my why is the ability to be able to give back and to help propel others. I have the freedom to do that and I'm not just tied into a job.

[00:31:04] WS: Nice. Tell us how you like to give back.

[00:31:07] CW: For me, giving back, I will mentor. As long as I know you're ready to run and you're in for the long haul, I will do just a straight on one-on-one mentor and I only do one or two of those because I don't have so much bandwidth. But that's one of my givebacks is to pull the others up that want in and want to do this.

Then on the charity side of the house, I'm still involved with the Toys for Tots, just Marine Corps pulling forward. So still involved with Toys for Tots and I'm a board member on the Military Support Foundation up in my town that I'm in. We are always helping veterans with jobs, with their homes, with their vehicles, with whatever their needs are. Those tend to be my focuses as far as giving back.

[00:31:57] WS: Love that. Thanks for sharing that, Chris. Chris, I'm just grateful to get to know you better and just for your time, your service in the military as well, and just the way you've given back to the listeners and myself today. It's been great educational for me, and I know they've learned a lot as well. Tell them how they can get in touch with you and learn more about you though.

[00:32:16] CW: You can catch up with, woodencapital.com. Or you can email me at chris@wootencapital.com, and we can just start conversing there. Obviously, I'm on Facebook and Instagram and all those. @realchriswooten on all the social media platforms. You can find me on any of those as well.

[END OF INTERVIEW]

[00:32:34] 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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