EPISODE 548

[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 Ryan Christopher Nunes. Thanks for being on the show, Ryan.

[00:00:32] RCN: Whitney, thanks for having me. Appreciate it.

[00:00:34] WS: Yeah, my pleasure. Ryan and I met at the Old Capital Conference I think in Dallas last year, and we've got to communicate numerous times since then. It's been great to get to know him and just watch he and his partner just grow their business and what they're doing. I'm looking forward to this conversation.

But a little about him: He's the number one salesperson, leading oil and gas derivative sales teams while working at Wall Street banks for 13 years. He transitioned to multifamily last spring and has co-sponsored $34 million in assets and is a passive investor in over 2,700 units across Texas, Ohio, Florida, Phoenix, and Georgia. He launched Life Changing Capital last year and is a data-driven multifamily syndicator that takes an institutional approach to a non-institutional segment of the asset class.

I'm looking forward to getting into that, Ryan. Give the listeners a little more about who you are and let's jump into what you're doing at Life Changing Capital.

[00:01:30] RCN: Yeah, and I appreciate it, Whitney. Thanks again for having me on the show. I grew up in East Coast in New Jersey. I did my undergrad at Georgetown, undergrad in finance and international business, and then started working in New Jersey for a utility company and got involved in their gas trading business. I started doing my MBA part-time nights and weekends and knew that I wanted to work on Wall Street, so I kind of segued given my gas and power background into Wall Street banks and their oil and gas money trading desks and just had a series of wins where a series of quick promotions. I was promoted to Managing Director by the time I was 30 and was one of the youngest ones in my class.

I just really enjoyed the space. I was at the right spot at the right time, and I really enjoyed running different sales teams and working with clients and did that for a number of years. 13 years in total. There was ups and downs in the commodities business, just like we're having ups and downs and both in the financial markets and the commodities business today. For a number years, I just was thinking about – As we are having kids, I just thought about what are some things that I can do to engage them, to build a legacy for them, as well as a hedge for my career?

So I had looked at a lot of different things. I looked at starting some schools. I'm very passionate about education. I had looked at some music schools. I had looked at some franchises. Unfortunately, none of those were the right fit for my skill set background and just my passion. Then I had learned about multifamily through a friend and just attended a few different events and realized this is something that I had been looking for for a long time. I wasn't interested in single-family. I own a house here in Houston. I just didn't want to add to that exposure but I was very much interested in running a business.

When I learned about the syndications and capital-raising and deal analysis and networking, it just checked all the right boxes. Particularly, as I was looking for something that was good for my transferable skills, was good for legacy building, and then the last one was something that had amazing tax benefits. I had fair amount of income that I wanted to tax shelter last year in 2019, and multifamily was just an incredible way to do that.

And so, I decided to jump into the space and was really looking for, I needed from a tax perspective to be a co-sponsor on deals so that I can become a real estate professional and achieve the tax benefits that I wanted to achieve to reduce my taxable income or to take that as close to zero as possible.

I was looking for folks that had a fair amount of more experience than I had and that had live deals that were getting ready to close and moved pretty quickly. The space that I came from was very quick, fast-moving, fast-paced environment, and so I had to find some folks that I could trust, get invested in deals, and then also work on the asset management side. I really wanted to get my hands dirty with the business to really learn it. That's just how I've gone about being successful in my career is digging real deep and learning a ton and figuring out. "Okay. Well, here's what I know. Here's how I've been successful. How can I apply that to multifamily?"

Just a few months into it, as we are managing some of the assets, we have one in Dallas, a 154 units and 230 units in Athens, Georgia, it just was a great opportunity for me to get involved and to apply some of the principles and views that I had. That helped gain confidence in my skill set and applying that to multifamily.

[00:04:59] WS: I get questions all the time, and the reason I think of this right now. Just last night, I had a call with a gentleman who seems so similar, a very successful career. He's been at this corporate position for 13 to 15 years but had really moved his way up. Finally, he's just like, "Okay, I'm just not passionate about this." I get this call often it seems, but people want to know about how I transitioned from, "Okay, I've got this career path, whether it's military, law enforcement, federal agent." Then it's like, "Okay. Well, now I'm doing real estate," and they want to know about that transition and how I did that.

I'd love to hear your story a little bit. Let's dive in there a little. I know there's listeners who are also in the same boat, and they're either wanting to make the transition or they're thinking, "Well, what does that need to look like? What does that need to look like with my employer potentially or when do I know that I can make that transition?" Why don't we dive in there just a little bit and talk about your transition? Because as the number one salesperson leading oil and gas sales, I mean, you didn't do that by sitting on your hands too long, right? I mean, you put a lot of time and effort into that. But then to transition, that's a big decision. It's a hard decision.

Let's dive in there a little bit. How did you make the transition? When did you know that it's time and maybe what sparked that?

[00:06:12] RCN: Sure. My story is probably a little bit different than most folks. Fortunately, I was in a spot where we had saved a fair amount of money. I think we just tried to save in the good years and for periods that might've been a little bit drier, and so it was kind of a pursuit of passion if you will, and I've always been someone that likes challenges, and here was an opportunity. I was searching for something for so many years. I would probably say a good four or five years, I was looking for what other businesses could I start.

A few times, it was the nearest goal to something. I've just been very entrepreneurial all my life and have run businesses. The businesses I ran on Wall Street were very entrepreneurial in nature, so I've had the business background, and I've had the desire and motivation and ability to lead teams.

For this, it really came down to what's something that I'm passionate about? I think for me, the tenant experience was something that I just felt a certain calling to if you will, a certain passion for wanting to exceed expectations on a property and exceed the level of customer service.

For me, having worked on Wall Street and been in sales, a typical sales role, for me it never felt like I was selling something. It always felt like it was a customer service function, and it was just trying to add value each and every day, and whether that was through commentary, whether that was through indications without asking for something, "I'm here to add value and be helpful."

That's always been my approach, that transparency and upfront honesty and value-add. I just felt the business would and has shown itself that it would just come naturally as an extension of being close to clients and clients that would have their guard down, because they didn't feel like they were being sold something aggressively but looking to – Someone's looking to add value.

For me, it was an opportunity where I had wanted to try something different for a while and decided to put my career on pause. It wasn't something that I felt comfortable doing, dipping my toe in a little bit. I did have to move a fair amount of personal capital last year, so I wanted all my eyes on the ball, full attention, and just given that I didn't want to make errors in judgment in terms of investing in people and investing in assets. I really wanted to devote myself.

[00:08:25] WS: When you left the day position, you said you could pause it, put it on pause, so that's something you could go back to if you had to?

[00:08:32] RCN: I would just have to network and find other institutions that would be looking for that similar skill set. But, yeah, unfortunately, in that business, if you step away, you step away. You don't go back to the same institution or so forth. That was just the decision that I made. The past let's call it year or so has been an amazing journey where I've woken up every morning with a lot of passion and excitement to just improve and get as quickly up the learning curve so that we can add as much value to others and we can find the best assets for investors.

[00:09:04] WS: You mentioned that you saved for a while. I'm not going to ask you up to the penny, but maybe you have a recommendation for the listeners like, "Well, maybe you should have a year's worth of expenses in the bank or six months."? Or was there a number like that that said, "Okay." You're talking to your wife, "Okay, honey. We can live for this long before I've got to go back and find a J-O-B." How did you think through that?

[00:09:23] RCN: Yeah. It's interesting. I had a professor that was a very senior person on Wall Street when I was at NYU, and he always said that Wall Street people are paranoid. They're going every day and they're never sure if that's going to be their last day, just because that's how things are. Outside of professional athletes and rock stars, Wall Street compensation is really amazing, and so I always felt like that lesson stuck with me. It was always being conservative in investing and really trying to live on a low means basis so that I would have the flexibility to do things and sleep well at night. I mean, we have no debt or houses to pay for and so forth, and that's kind of forth. And that's, the decision that I made. I never wanted to feel that I was indebted to banks and other institutions.

To answer your question directly, I mean, frankly, we have four years of living expenses that we've just set aside. For me, that's what felt comfortable. Just having a fair amount of cash for a rainy day and so that I could try different things and not be worried.

[00:10:19] WS: No. I think it's smart. If you only have a month or two set aside, you're already in trouble. Now, I appreciate you sharing that because I've had that question like, “When do I know it’s right? When do I know I can step out and try to do this?” Then you and your partner have done well, and maybe we have time to talk about that a little bit.

But ultimately, what was that step for you in learning this business and being able to make this happen? Not just everybody happens as quick as it has for you or with the success you've had. What were some of the key steps that you took to having the success that you have in a short period of time?

[00:10:48] RCN: For sure. I think also part of it is it's one year in multifamily but it's 18 years or so of working business experience and frankly a large part of that on Wall Street. With that, there was already a lot of fertile soil. The foundation was there, so it just became, “Okay, I need to just understand how this market trades. What are the dynamics? What are the fundamentals of it?”

Part of that was, “Okay, let me see how people underwrite, analyze deals. Let me really understand the Excel work behind it and let me understand the pain points, moving cap rate here, and just quickly finding [inaudible 00:11:22] this cell and this model have really changed your terms massively. Why is that cell important?” Just asking tons of questions.

I decided that I was going to be purposely passive to start with and invest with people that were willing to invest with me in terms of investor time and answer a lot of questions that I had. From that, I could judge level of transparency. If that was the dating phase, how it would look like when we’re married and I’m invested in a deal. That was something that I decided to do is really dig in hard to the Excel modeling. I asked tons and tons and tons of questions, and that's just been my background, intellectually curious, so I enjoyed the learning process. I read as much as I could, watch as many YouTube videos as possible. Just a fully immersive experience.

A lot of that was why I needed to just dedicate the last year to doing it, because I felt like to do it justice and to deploy that amount of capital, I needed to have full attention to it.

[00:12:20] WS: How much weight would you put on the passive investing that you did as far as to learning the business, because I get that question as well. “Should I invest passively first? Is that going to help me learn the business? Is that going to benefit me when my ultimate goal is to become an operator?" What would you say?

[00:12:37] RCN: Yeah. I would say it definitely helped, right? I mean, I would rather stub my toe in a passive deal than in a deal that I'm sponsoring, because that starts to your track record when you're sponsoring deals. For me, the passive, it was quicker diversification. You can write smaller checks in passive deals. I have invested in Arizona, Florida, Ohio, Texas, in different locations just in small amounts to spread that risk. For me, diversification was just really important. I mean, there's also a way to get to know people and get to know sponsors, get to know submarkets, and get to know how they think about assets, kind of what their reporting is like. Then also from that, that was a learning experience in terms of how would I do it, what can we cherry pick from their ideas and apply to what we're doing?

I would say, yes, passive investing if you have the capital to do it first. That's a smart way. Frankly, if you have time to kind of leg into the market if you will, and that's smart, right? I didn't have the luxury of time. I had a window that by December 31st, 2019, that was kind of the wall if you will where I had to deploy a fair amount of capital and get the tax benefits that I needed to get to tax shelter my income. If you do have the luxury of time, yes, passive investments. Now, for sure, for people that are investing passively, just make sure you can trust your partners. That's so critical.

[00:13:54] WS: What's that relationship been like as far as working with those operators really with the intention of you learning the business? There are some operators that will cater to that a lot more than others, and I just wonder what that experience has been like for you.

[00:14:07] RCN: For sure. Part of it was I sat down with these folks a few times and also kind of did some reference checks, if you will. Just talked with other people and to learn about the deals they've done, to learn about them and their character and so forth. All of that checked out, so to me that was super, super important.

They were also kind of just the goal setting like, "Here's what I'm trying to do. Here's what I want to learn." I want to get my hands dirty and I was just very open and honest. I think I can add a lot of value, and so they were very open. They've been helpful in terms of being on asset management calls and writing reports, doing some analysis. I mean, all of that. I think that helped them, but it also was very beneficial in terms of providing confidence for us looking at our own deals.

My partner who is in California is Jeff Yang, and he’s a fantastic partner. Just really excited as we've underwritten probably 200 plus deals in the past nine months or so.

[00:14:59] WS: Give me just a couple things that were just key in getting to the first couple deals.

[00:15:04] RCN: In terms of the first deals I passively invested in or –

[00:15:07] WS: No, as on the active side. If you had to pick out just, we’ll say, two things that like you would say okay. Talking to somebody else, “Here’s two top things that helped me to get to the first few deals on the active side.”

[00:15:19] RCN: Yeah. I think on the active side in terms of what we decided to do, we took a long-term approach to it. So we decided to build our team and when I say team, meaning service providers and property managers in different submarkets, folks who we’re going to use on the legal side, folks we’re going to use on the financing side, insurance, property tax consultants.

We wanted to do all that groundwork first so that when we went out to brokers and we schedule a tour to Dallas and sat down with the top brokers in the region, the first question they would ask is, why should we show you a deal. Why would we award you a deal? They were like, “Who do you use for property management?” We were like, “Well, in this market, we use this property manager. In that submarket down the road, we would use this.” They saw the level of work that we did.

Then we were at a spot, we wanted to make sure that if they gave us a deal, we could underwrite it and provide feedback within 24 hours. When we are ready to do that, then we are ready to sit down and talk with them. I think that's one thing is that before you reach out to brokers, just make sure you have your team. You only have one time to make a first impression, so make sure that you know what you're going to do, what you're going to say if someone gives you deal that you can come back with concrete feedback.

That's just principle that I followed throughout my career is that a lot of people unfortunately just don't follow-up. For me, it's about the follow-up. I feel like that's where my career has been differentiated from a number of folks. Particularly in sales, it's all about the follow-up. You told me that you were looking at this last time we talked, and so I wanted to see what your thoughts are on this and that. The same thing here is that the brokers are on the side that I were on when I was on the sell side of banks is they're trying to sell transactions and deals, and so they want to see that you're following up if they show you something.

For me, I understood what that was like and I understood how it can be frustrating when people didn't follow up, and you sent them an idea or spent time to answer their questions. That's something that we're very keen on. I mean, 24-hour feedback to brokers, pretty detailed, not a slow maybe but a pretty quick, "Hey! We're going to spend more time," or, "No, this just doesn't fit for X, Y, and Z reason."

[00:17:25] WS: Love that. This business is so much about following up. It doesn't matter if it's a broker or if it's an investor. So, Ryan, great advice. No doubt about it. I couldn't agree more. It doesn't matter if you're going to a conference or you're talking to an investor or you're talking to a broker. You better be following up.

But just a few final questions before we run out of time. What's been the hardest part of this syndication process or business for you?

[00:17:45] RCN: I would say the last nine months has been a time where pricing has just felt pretty rich, and I think what's been really hard is that you've had to stretch your underwriting to get to whisper or asking prices. There's been times where we've actually bid over asking price. There was a deal where we bid 500,000 over asking. Someone bid like 1.1 million over asking and that was probably like 10% plus over the asking price. That's a sizable premium, and so that was really hard to see some of these transactions go, and there's no room for hiccup in the model, right? If you're forecasting 3+ or 2+ percent rent growth and the market declines, that impacts your hold period significantly. For us, we wanted to really do as much de-risking as possible, and that’s hard to do and win deals in this market.

I think that's going to change though. I think we’re in a spot where the next few quarters as we have this whole COVID-19 crisis and unfortunate layoffs and the like, I think that’s going to provide opportunities for people that – For valuations to come back down to earth.

[00:18:47] WS: You're probably thankful now you didn't pay 10% over.

[00:18:50] RCN: Exactly. I mean, we look at a lot of deals. We had a lot of heartburn over. We’re thankful that those deals didn't get awarded to us.

[00:18:58] WS: Tell me a couple ways that you were prepared for this downturn. Let’s say go back before you knew it was going to happen. How were you preparing for this?

[00:19:04] RCN: I have been through a lot of market cycles. In commodities, there has been a lot more market cycles than there has been in terms of equity markets. There's just a lot of movement in commodity markets, so feeling that agony and feeling when things just don't fit right in terms of pricing. We were just being conservative. We would just say, “Here’s a number, and this is what we’re comfortable with, and we think that this is where it should trade, and this is what the property manager is comfortable with. This is what we’re comfortable with, and here's what’s something traded down the street.” We would just say like, “Here’s all the basis for how we came to the valuation.” Those were just facts.

With that, if people wanted to overpay, that was what it was. But we felt because if there were a COVID-19 situation, we didn’t want to have overly aggressive underwriting. I think that's one way we prepared by just making sure, which is a huge part of it. It’s just making sure that you win the deals that you want to win, because you've priced them appropriately. I think the underwriting and the analysis up front is key to being able to operate during a financial crisis.

Secondly, just making sure you have it adequate. For our modeling, we always put in buffers around CapEx and different numbers so that we have adequate cushion. We hold things in the back pocket in terms of, “Hey! We could do this to help the property to boost rents if things – If we need a plan B to boost income or so forth.” You have to have some area for cushion.

Otherwise, it's going to be tough. Then that translates into reality when you're operating the asset, is that you have some cushion. That's just critical. You're looking at some cash reserves that could cover in some cases 20 or so months of debt service. That's a great position to be in, so we're fortunate to have those opportunities.

[00:20:49] WS: What's a way you've recently improved your business that we could apply to ours?

[00:20:53] RCN: Honestly, from the time that I started in this space, I've probably built, redone, tweaked 50 to 60 iterations of my valuation model. With that, I want to see data cut and analyzed a certain way. There's this kind of relentless pursuit of perfection in terms of improvement and figuring out, "Hey! What could I add to this or improve it, so it takes me less time to get to a more accurate answer?" That's one thing. I would just say there's always room for improvement and I'm saying that. A lot of it is having a really strong partner that you look up to to bounce ideas off of. That's just one very, very critical thing. It's hard to do this alone. This is definitely a team sport, but I would even say it's more of a partnership sport. Having that person there to run ideas by has just been critical to vast improvement.

[00:21:43] WS: What's been the number one thing that's contributed to your success?

[00:21:47] RCN: It's accommodation of my background, the follow-up, and then the partners and people that I've associated myself with that have just been supportive and really strong. I would say it's those things in total. I don't know if there's one particular thing but I feel that my background working on Wall Street and putting in lots of hours and working in very volatile conditions where markets moved 10% in a day or in a few minutes kind of prepared me for the real estate markets.

[00:22:11] WS: Where are you finding investors right now?

[00:22:14] RCN: People that have known, liked, and trusted me for time. Folks that I've rubbed shoulders with in my career in oil and gas. Actually, this is kind of real estate and multifamily in particular, which is 100% my focus is high occupancy asset that just has really good fundamental terms with it, right? We're becoming a nation of renters. That whole story I think has resonated well with my investor base, as well as the deep level of analytics that we do on assets and the level of transparency. Folks that have known me and know that it's a very transparent investment opportunity, they can ask any questions, and there's no dumb questions. We've thought critically through the pros and cons of the transaction and we've kind of knocked those out.

[00:22:54] WS: Any new ways that you're finding people outside of maybe your old contacts?

[00:22:58] RCN: I think just going to different real estate meet ups. Whitney, with your inspiration, I started a podcast, so that's gotten some following. That just creates more conversations and networking opportunities and people that have reached out said, "Hey! I'd love to chat with you and hear more about your background and what you're all up to. I would love to hear about any deals and so forth that you all have." That's been one way for sure. You have to kind of get out of the shell, get out of your comfort zone, and proactively visit with folks.

[00:23:23] WS: How do you like to give back?

[00:23:24] RCN: We give back in a few ways. I grew up playing in a band in high school. It was probably one of the more life-changing experiences that I've had. I had two good friends in high school. We wrote all our music because we couldn't play cover songs. We just weren't good enough. With that, I wanted my kids to have just that experience. Part of what I had mentioned earlier in the podcast was looking at music franchises. Frankly, I just didn't want to charge people the rates that the franchiser was asking and I decided to just go to my kids' school. They go to a school here in Houston, and I decided that I was just going to sit down with the principal and the head of the PTO and say, "I would love to give back, and here's a unique way I can give back." That's I could coach a rock band at the school. They said all I need is a room. If the PTO could buy some speakers and so forth, that would be great. I'll fund the other equipment. They said, "Yeah, that works." Here's a great room in the central campus," and so we started that just over a year ago, and it's been great. The kids have had an awesome opportunity to grow their friendships and to play in front of their classmates.

I've coached basketball and I honestly try to do this for people that know me. If anyone has a need, I just try to say I'm never going to deny someone. I always try to help out in any way possible, whether that’s of my time or of my treasure.

[00:24:43] WS: That's a very unique way of giving back, and I've never heard that from anybody else on the show anyway. Just going to school and helping start something like that. That's incredible. Ryan, I appreciate you just sharing your transition from one career and just shifting completely. That's not an easy thing to do. That's for sure. Like I said, I get questions almost weekly from people trying to do the same thing and wondering how I've done that.

Thank you again for sharing your story and how you've been successful at it but tell the listeners how they can get in touch with you and also tell them about your podcast.

[00:25:11] RCN: Yeah, for sure. You can reach me on email. It’s ryan@lifechangingcapital.com. Or you can go to my website, lifechangingcapital.com. The podcast is on YouTube. It should be on Apple soon. Whitney was one of our guests, so it’s a great podcast there. We’ve had a number of episodes, but it's something that's a little bit more thematic and that is on YouTube. It’s called Multifamily Rock Stars.

[END OF INTERVIEW]

[00:25:33] 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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