

EPISODE 562

[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 Chris Pomerleau. Thanks for being on the show again, Chris.

[0:00:33.6] CP: Thank you. Thanks for having me again. Appreciate it.

[0:00:35.1] WS: Yeah, pleasure to have you back. And listener, if you haven't heard of Chris before, you should go back and listen to show WS493, came out February 26th. I would encourage you to do that just to learn more about Chris and our discussion at that time.

But in case you haven't heard him there, just a little about him, he practices family law, helps many people with marriage dissolution, child custody and domestic violence cases. And more is also an equity manager, helping others achieve freedom with passive income by investing in real assets without having to invest their time and effort.

He follows the professional motto and I love this quote, it's in my email signature. It has been for a long time, this is a really good one by Winston Churchill and says, "We make a living by what we get, we make a life by what we give," and I appreciate you sharing that as well Chris and why don't you give us a little update and let's dive in to what we're going to talk about today.

[0:01:26.4] CP: Hey, thanks again for thanks for having me. I appreciate it. Yeah, things are moving along, obviously we're in different times. I know a lot of your guests are in the same boat, you've been talking about this a lot. But yeah, just I had to say this because a lot of people are struggling and so it's certainly a serious issue but there are some silver lining or positive aspects that we can kind of apply to our lives and just getting a chance to spend time with family, learning what is really needed and what's really not needed, whether that's in your business or just in your personal side.

We've kind of taken this opportunity and not only as business but as a personal level kind of refocus on what we're doing and fine tune things that matter and sit back and just make plans dedicated based around what really matters, you know?

[0:02:05.2] WS: Awesome. I know from your experience and just your professionalism and being in business for a long time helping others, we were going to talk about and discuss just ways that people can get started in this business and how you know, a lot of people thinking outside the box maybe a little bit.

I know when I was getting started in this business, it was like I had blinders on, right? I could just see single-families or small multies. I didn't have this idea of this – what was out here and didn't think that I really had much to offer. But I know you are experiencing this business and I wanted to just jump in and get right into it.

[0:02:37.9] CP: Thanks. I mean, I think you said it best. Everyone has something to offer. I think that one of the things we continue to learn is that people come from different backgrounds, people have different characteristics that help them succeed, but when you combine that to everybody, you form those partnerships, you can kind of succeed on a better level and that will reach a lot of different things.

But we continue to grow, continue to help people because we've reached out and we've made sure that everybody's interests are aligned and if I could give a couple of examples. Something that's kind of top of mind but maybe perhaps to a lot of your listeners but there are professionals that have a good salary, a good living and a good income that are really interested in real estate but they don't have a time to sit down and teach themselves how to do all the stuff, they need

to build good partners and they need to align themselves as somebody they trust and that is their niche, that is what they do. They are a doctor. They are a banker. They are – they own an HVAC company. They do whatever but they concentrate on what they're passionate about and then when it comes to their investment side, it partners, somebody who is good with that.

That's kind of obvious, right? Having the money, giving the money to somebody to invest in. I think not so obvious and what I've heard a lot of people say at different meetups and what not is "How do I get started?" Well, you don't have to have a million dollars to go out and syndicate an apartment. You could have zero dollars and you can find yourself somehow on a GP and find yourself somehow a part of it whether that's – maybe you've managed property, right?

Maybe you know how to manage property but you just don't have the funds to purchase or get into a syndication. If you can align your interest with a sponsor who knows what they're doing, that is how you can get into this game. Maybe you know somebody with an off-market deal, maybe you know family members.

I don't want to get too shot gun spray here but the concept that, "Oh it's just too much attack right now or it's such a large area to learn." That's what we're all here for, we often fill a certain niche if you will.

[0:04:29.4] WS: A lot of the times you feel so alone, right? When you're first getting started, you may not know many people in the business, you haven't networked much yet and even that alone can seem kind of intimidating if you're going to go and try to start meeting people and networking. Even that by itself.

However, it's such a team sport. The whole – every aspect of the syndication business, there's going to be team members even if they're not under the same company name. You know, there's a lot of people you have to work with to make this happen.

I think it's interesting, you talk about maybe I'm really good at managing properties, maybe you've only had a few small multies or single-family like I did, you know before getting into the syndication business. But you know, you have some skills there, right Chris. That you've learned some skills from that that you can contribute and help somebody.

[0:05:12.5] CP: Of course, yeah. I mean, I know there's a young investor in town here that super motivated, wants to learn how to do all these kind of things and had a few family members with some money that wanted to get into it. What did that investor do? That investor, really young guy, motivated, he used the money of his family members who wanted some good returns to then invest into with another sponsor or a couple of other sponsors. And he got a part of that GP because of how much money he brought. He didn't know a thing about syndication. These are opportunities for people to learn those things.

Now, through this process, he'll learn GPs do, he'll learn what it takes to be on that side, there's no doubt in my mind he'll be good at it because he's motivated. But that's a prime example. He absorbed all to start. Yeah, it's just about being passionate and see where you can fit in.

[0:05:54.0] WS: I love hearing stories are like that too because I think it is a misconception that a lot of people feel like, "Well, I've got to have so much to get in." And I can't say it's just absolutely free, you know, even going to a networking event if you're traveling somewhere, may cost a little bit. You know, as far as like you said, you don't have to have millions, you don't have to have hundreds of thousands and you can still make something happen.

Any other examples have you seen, it doesn't have to be in syndication but you know, where somebody has really coming up from nothing to make it happen, you know? In that industry that they were looking for?

[0:06:26.1] CP: I mean, this is still the investment arena but I mean, being an agent. I think agents – Way too many agents don't take advantage of their platform. Not only are they part of the most deals but if they can hold off, I understand that's their livelihood, but if they could perhaps not pocket 100% of their commission and they can roll some of that into a project, that's a good way to perhaps then continue learning on that product.

Maybe they're just LP on that deal but they're learning the system instead of just closing the deal and then walking away, that's the prime example. I think agents have a great platform to take advantage of – I have a family member who – very smart guy, gives a lot of constructions. He actually builds apartments, didn't know anything about investments. But he has so much to

offer when it comes to the construction side of things and looking at estimates and keeping with the contractors and he's motivated to learn and so he's volunteering his time, he's not getting paid for it to give his skill towards an investment that he's a part of while also learning the investment as a whole.

That's a prime example of an opportunity that I hate to give the money or knowledge example because even though those are important, there are times where you may not know anybody, you may not have any money, you may not have – those are skill to offer but you can talk to people. Just talking to people, knocking on the door of a leasing office and seeing what it looks like and seeing if you can interest the owner in selling, that's something any of us could do. Some of us will be good, some of us will be bad.

But that took no money and it took no actual labor skills or knowledge necessarily just some people skills. Those are some examples that I've actually seen work and as we continue to grow, it's because of the partnerships and the teams we're building because we're finding people like that and they're finding us too. We're all fitting in helping build the team and helping it to the end goal and it's working for everybody so it's great.

[0:08:11.1] WS: I thought that was a good example there even just going to the management company, you're going somewhere like that and just asking questions, I guarantee, you are going to learn a lot.

[0:08:18.6] CP: You will.

[0:08:19.9] WS: You're going to learn a lot.

[0:08:21.4] CP: Certainly.

[0:08:23.1] WS: You know, that's a great segue right into actually finding a partner or what you look for in a partner and what that should look like. And I've heard different ways that people have said, 'Well, this is what I want to partner, what I want in a partner, this is what is a must for me or for them or whatever.'

But you know, what do you suggest? I know you're an attorney as well but I know you're either family law but still, I think partnerships affect families in a big way, business partnerships I mean, you know, that's still a fixed family in a big way. I can only imagine some of the stories and stuff you have to deal with.

You know, that gives a good background for you to think about ways that maybe, that failed, you know? In different partnerships. For you Chris, you know, help us think a bit through that a little bit as far as finding that right partner, get us getting started too a lot of times. It's great if you can find a more experienced partner, right? Somebody that, especially other types of skills but sometimes, it's like two people that are both brand new, that are partnering, you know, as well and they still make it work.

What suggestions do you have?

[0:09:19.2] CP: Well, I mean look, everybody's starting somewhere, right? You can look at the most successful syndicator and they had a first deal. If they can do it, you can do it, we can all do it so I've never really liked the approach of experience. Now, I'm able to stand behind my experience that something that people respect and I like that but there was a time where I first started this.

I think the important thing you need to find in a partner in a question is transparency. Right now, is a perfect time. If you're an LP on a deal and if somebody's reached out to you and told you nothing's going to happen, this is no big deal. We haven't really put any plans in place because it is what it is and it's all or whatever. I'm not getting political here but that's not necessarily realistic.

I'm not trying to say that anybody's doing anything wrong there. But honesty and transparency is huge if we're looking to find a partner. If we looking at what we're going to find for rents April and May here, we need to have a plan in place and we need to prepare our investors that our original projections maybe put on hold for a little bit. The five or six percent bump we expected on rents, that might be changed here because people want to making the original rent pays and those are honest conversations you have to have. I can say this much though. Them paying their rent is still doing a lot better than stock market right now.

Regardless, I think it's important that you find a partner that you can trust and it's going to be open with you upfront. "This is only my fourth deal," they might tell you instead of trying to blow out portions that they've been doing for 20 years. Or if something bad happens, they'll be the first one to tell you about that. I think that vetting who you're going to be with, asking those hard questions, you're about to give them a lot of money or you're about to give them a lot of time.

You know, if you're going to be a property manager for somebody just because you can get into a deal maybe on the GP side, and somehow get your foot in the door, you don't want to get your foot in the wrong door.

[0:10:58.9] WS: Even if you're not putting any money up.

[0:11:00.2] CP: Exactly, right. Because now, what's that saying? You mess up your first syndication, you might be done forever, right? You don't want to be known as somebody who is on that syndication that tanked. Sure, you didn't lose any money but you might have lost your respect or you might have lost your name and you might have lost even the taste for the investment opportunity, which things will happen.

You can help mitigate those risks by making sure you find the right partners and I think you need to ask some questions of those partners before you decide to go on the investment route.

[0:11:26.3] WS: No doubt about it, it's such – it's just like a marriage I feel like.

[0:11:30.2] CP: Exactly.

[0:11:32.6] WS: Unfortunately, too many of those end up being really badly.

[0:11:36.8] CP: It is my job which is also unfortunate as well. But you're right, it's just like a marriage and it can be more difficult. And obviously, transparency and honesty are huge in a marriage and your partnerships. Know your right. And even through the divorce process actually, whether it's the attorneys being honest with each other or the party's being honest with each other.

I have seen – Divorces aren't positive, but I have seen them come to a relatively amicable and streamlined end if everyone can just be honest upfront, set reasonable expectations and that helps guide the entire trajectory of the case if you will. That's the same for investment, if you're setting expectations to get 20% cash on cash within the first year, even if you, in your heart of hearts believe that, if something like this happens, you need to honestly – investors upfront.

Yeah, I agree with you. Marriages, investments. I guess life in general you should probably just be an honest person.

[0:12:32.8] WS: That's right and communicate well.

[0:12:34.7] CP: That's right.

[0:12:37.8] WS: Are there any questions that you see that are very important when you're just vetting that potential partner or your own business partner? You know, anything that you say are really want to know this or I mean, this is a must, I have to know these things or anything specifically you know, about this individual?

Say we just met at a conference, you know, six months ago and we've just got to know each other a little bit. Anything that you say, "Okay, these are some things maybe their background, their history, whatever that I have to know?"

[0:13:04.3] CP: Yeah, that's a great question. I think that one of the most important things to look at are how would this sponsor or partner handle situations that doesn't necessarily go correctly? Like perhaps ask them, "Give me an example of an investment you've had that did not turn out the way you thought it would?" I can tell you in a month from now or maybe even a few weeks from now, you can ask that sponsor, "How did you handle this COVID-19 issue? How does your property management approach this? How did you approach your investors?"

Seeing how people come out of this is going to be huge. And I know that you know this, talking to – you've talked to so many investors but a lot of the successful ones who have been doing

this for a long time got so much better because they were able to build their strong foundation through the last recession.

The ones that come out of this strong and still being able to help their investors, they're the ones who are really going to succeed. I think a good question to ask a sponsor is, "What are you doing right now in the middle of this?" If you don't want to make them related to COVID-19. You just simply say, "Give me an example of some – Are you planning on selling on five years, it didn't work, what was your backup plan? What is your second-round exit strategy? What happens with that?"

Because things will change, things happen and sometimes for the better and sometimes not as good as it expected. So, seeing how they handle that is huge. I think it is a really important thing to ask future partners for sure.

[0:14:22.3] WS: Yeah, it is so important. I know before I formed a partnership with someone else, I mean I have been asked many times by lots of people to partner and turned them down and sometimes I feel like it is almost the first conversation I'd ever had with this person.

[0:14:35.0] CP: Yeah.

[0:14:35.6] WS: You know it's like, "What?" my goodness this doesn't make sense and sometimes it wasn't. But I just didn't feel it was a good fit personally or just our skillsets. But what would you say as far as skillsets –I know we talked a little bit about getting started and how for property maybe we have some property management skills but even on a deeper level or as far as underwriting or asset management or maybe marketing or anything like that as far as just complimentary skillsets what you've seen it work really well together?

[0:15:02.9] CP: Well, I think one of the examples that I gave earlier was that having access to money and then learning the process through that. And this is an individual that didn't even have, which by the way I know more than just one individual who does this. But this individual didn't have the nine to five giving the six-figure income that then he could give to a sponsor and then learn the process. This individual didn't have a job, knew people with money and then was

able to help them on investing. But then connect them with a sponsor and then learn the process.

And so, you don't even need to actually be the person making you money. If you are the one that has money and want to invest, I think it is good to diversify. Obviously right now I said earlier I'd much rather be in real estate right now than any of the asset class. But I think you look at that and you say, "I'd like to learn this," or, "Maybe I don't have time to learn it and I just want someone who could do it for me."

But if you sure want to learn how to do it just take it, giving that money to somebody is an opportunity to learn that process. I think we spoke about it last time that I was on the show but finding a coach too. You know that coach, that mentor, someone you can speak to that is going to help you there is so many doubts in our minds, right? And you might say, "I am a young person. I don't have a job." or "I have a full-time job and I don't have time to do this, I'll never be able to do this."

That mentor, that coach helps you to dive into that. First off, figure out why are you thinking that way and then develop new ways to look at it and think outside of the box. And I think continuing that relationship through a mentor is a great way to get started in this business actually.

[0:16:30.9] WS: For sure. I couldn't agree more, Chris said and yeah, we all need mentors. Anybody who's successful has probably numerous mentors. I probably asked you last time you're on the show, I probably asked you how you were preparing for potential downturn in your real estate business?

And so, I'd like to ask now you know how that's worked? What you were doing let's say two or three months ago, six month ago were helping you prepare for what's happened now?

[0:16:58.8] CP: Right, well I am glad to hear you said that because we were very prepared. We didn't expect anything like this and it is not – you know a global pandemic isn't typically on somebody's proforma and their due diligence and their underwriting.

But I think the same concepts that I probably talked to you about the last time I was on the show, our business approach is that you want to try to find debt that's fixed as long as possible. If possible, find it and make it non-recourse. Have a number of years built in that is interest only or something that gives you time to reposition the properties. And make sure IT cash flows right away. That is something that we have always done and you don't have to do that. Plenty of people are buying stressed properties but I couldn't imagine closing on a large complex in January thinking I could raise a \$100 a unit and then cash flow it and then finding out now that not only can I not raise rent but I am getting 50% of my renters paying.

So, it is nice that you ask that question again because even though pandemic wasn't on my radar, it hasn't affected us. Are we talking the necessary steps by speaking with lenders and speaking with investors and making sure we're the best way possible? Nol question. Are we frantically looking everywhere to save ourselves? No, because we put ourselves in a position where we are relatively safe. And so, the long answer to your question is that make sure your debt is relatively safe for you.

And I would say looking forward and sellers have to understand this now, I'd say, looking forward this is a buyer's market when it comes to terms, this is my opinion right now. I have already seen it come to fruition in the contracts we're getting right now. Sellers aren't going to get most likely what they thought they were going to get eight weeks ago. And if they are going to get the same price, they are certainly not going to get the same terms.

There is a number of flexibility items that you have on your side as a buyer. Case in point we have a contract for larger apartment right now that to close is 120 days from now with the ability to extend 30 days and the due diligence period of 90 days. That would have been scoffed at a month ago. But now, we have to protect ourselves. There is another clause that we put in there that we wanted to make sure that within the last 30 days of closing there's a 90% economic occupancy. So not just occupy but actually being paid.

Now there are some lenders like Freddie Mac who are going to make that mandatory or at least deal with a load of waivers anyway but those are ways to protect yourself moving forward to not only get the right debts. But also make sure the contract is written so that you're protected so

that you have to be able to truly get out in the end if things unfortunately get worse, which hopefully they do not.

But we are in the driver's seat if we can draft the contract the way we want to and sellers know that now, they truthfully know that now.

[0:19:33.0] WS: They are kicking themselves for not selling six months ago, right?

[0:19:36.2] CP: I am kicking myself not selling months ago.

[0:19:39.8] WS: What about the earnest money, how you all are handling earnest money, has that changed?

[0:19:44.8] CP: Low. I am making it low. I am not going to put a large amount of my earnest to sit there in an account not earning anything. If cash was ever trash, if cash was ever dead, it is certainly dead now. You have no idea what is going to happen with the stimulus and the actual value of the dollar. And if we end up having not move forward in the contract 94 days from now but I had 80,000 sitting on an account the title that doesn't really help us.

So, sellers are beginning to become okay with this. You know just in the last month and a half which I understand things have gone quickly worse but we have seen our ability to either re-trade just on the negotiation side of a lower EMD and a long our drawn out closing and if they don't like that that's fine but I don't want to be that investor and I certainly don't want to be that sponsor, who put in a 100, \$150,000 and then not being able to close and maybe some of your investor's money sitting there not getting any interest, not getting returns. And so, that is a way to protect yourself.

[0:20:46.5] WS: Tell me about a little bit of the investor outlook or environment that you are feeling right now from conversations you've had with your investors? Are they ready to invest now because they feel like the market is going so far down and they want to ride it back up or are they scared?

[0:21:01.5] CP: It's a mix and it depends upon their knowledge of the class, right? So, I can tell you our investors who have traditionally rely heavily on the market are pretty happy to start looking elsewhere. It has taken such a nose dive, I would never take this opportunity to say I told you so but that is the problem with the market. The lack of liquidity in real estate actually comes out to be a benefit for all of us because we can't react in an unnatural and unreasonable way.

When you see your stocks going down and try to cash them up the next day and that is what happens. There is a frenzy and people just start unloading their assets. But you can't do that in real estate and it is actually probably good thing. There is also a number of other reasons why I feel it's better. But I think that investors that are seeing what the market's done to their portfolio is they are certainly a lot more interested and starting to restructure the pie chart of their investments if you will.

I think that other investors that we have that have somewhat of a decent knowledge in the real estate area already are salivating. They are hoping that 30 days from now everyone is healthy, but they are also hoping that 30 days from now is one of the best buyer's markets we have ever seen because people who didn't put a long-term debt into place, people who weren't prepared for this are having to offload their properties. So those investors are pretty excited.

And I forgot the third part that I'd say I had some people who simply don't want to do anything because they are a little worried of what is going to happen. And with things changing every five minutes on the news and depending who you talk to, I don't necessarily blame them. But I just don't want to be the person who a year from now said, "I didn't do anything for a year because I was scared," because I think there is always opportunity to make the best out of the situation.

[0:22:43.1] WS: I love that mindset. I am just seeing opportunity, being ready to see opportunity. If you are already mentally closed off to thinking it is a horrible times and nothing great right now, then you are going to miss the opportunity.

[0:22:54.3] CP: Yeah for sure.

[0:22:55.5] WS: Chris before you have to go, tell us how you like to give back?

[0:22:58.4] CP: Well now, we are doing a lot. One of the things we've done to a number of property management groups is ask the tenants how we can actually help. We are successful. It doesn't mean we can just in the next six months pay the rent for out of all hundreds of tenants. It is not how it is going to work. But these are real people and we provide them a place to live.

So, reaching out to the tenants as part of somewhat of a template email that they should get from their property management anyway about the number of ways they can pay there should be more than one option, we should be a little more understanding here not only because the tenants will have a hard time. We need the money to pay our mortgage as well. But we have to understand that. But outside of the financial piece is to give links and get access to support systems. Whether it is through the state, whether it is to state assistance, whether it is food drive.

One of my property management companies went and purchase gift cards and they okayed this through us first, they purchased gift cards for local restaurants that could then be used at local restaurants for food. Well I have two new people and to be honest that is free food to us because the tenants are becoming more happy. Now they have something to help them with food and it's helping the local establishments as well.

So that is something they'd okayed through us and financially that's how we are giving back. We all need to get through it together. We need to be understanding on both sides. But this is a real serious situation. It is a little different than '08 and '09. So, keeping that in mind is what we liked to do and let them know, look yes, rent is due. We will figure it all out, but here are some ways you can help your family through it. And that's been honestly, it's been very rewarding. Unfortunately it's having to happen but I am happy we are in a position where we could help them.

[0:24:34.5] WS: Love that. I appreciate you sharing that and how you all are handling that. I think it is incredible just to be able to reach out like that and say how can we help, what's the needs but it goes right back to your motto in your bio and we make a living by what we get. "We make a living by what we get, we make a life by what we give." Yeah and how you all are giving

back in that way I appreciate that. but tell the listeners how they can get in touch with you and learn more about you?

[0:24:57.2] CP: Yeah, so I am Chris, my email is at chris@parkavenueinvesting.com. You can find me on LinkedIn. We also have special reports and things you need to look at as an investment partner that you want to ask somebody you want to invest with, things you need to ask these questions for, you can find that at partneringchecklist.com. It is just a special report I like to offer people, just read it, make sure you understand what you are getting into and review those types of things.

These are things that are really important to anybody whether you're going to move forward to syndication or whether you are going to hire someone to mow your lawn I think it is important to know exactly what they are offering, how are they going to handle things. And so, I like to draw attention to that website. Don't be afraid to hit me up on email or LinkedIn and I am always happy to help.

[0:25:35.7] WS: And tell us one more time where we can find that link or to find that report.

[0:25:39.0] CP: Yes, partneringchecklist.com.

[0:25:41.6] WS: Awesome. Chris, that's a wrap. Thank you very much.

[0:25:43.8] CP: Thanks a lot. I appreciate it.

[END OF INTERVIEW]

[0:25:46.0] 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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