

EPISODE 564**[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 Kevin Heras. Thanks for being on the show, Kevin.

[0:00:31.9] KH: Thanks for having me on, Whitney.

[0:00:33.6] WS: Yeah, honored to have you on Kevin. And I know that the listeners, many of them who are operators and pass investors as well are wondering about all these platforms that are coming out right now. And if they're a passive investor, they're wondering what their operators that they're working with are going to choose and why. And if they're an operator, if they haven't figured out, they're trying to figure it out. It's a big question right now. "Who do I go with?" "Who do I use and why?" And don't even know where to start because if you don't know anything about software and then you have to go try to evaluate something like this, it's a little bit overwhelming.

So, I'm looking forward to this conversation and hopefully, we can help the listeners or you can better understand what we need to be thinking about here.

But a little about Kevin, he's a co-founder at InvestNext, a software that modernizes the way real estate syndicators raise and manage capital. Prior to founding InvestNext, he was employee number two at the college career network startup, Handshake, where he contributed

to initial product development efforts. It's now valued at over 400 million and is a leading college to career recruiting platform in the nation. I assume there's more than two employees then?

[0:01:38.1] KH: Over 200 right now.

[0:01:39.9] WS: I'm just kidding because you were employee number two.

[0:01:42.0] KH: Yeah.

[0:01:42.6] WS: Today, he is honored to be a part of the seasoned team of software engineers and real estate professionals that are building the InvestNext platform which to date is managing 230 plus syndications and over a billion dollars in capital. That's big number Kevin. That's a lot to have in the system.

Before we get into the system and what we need to know about these different platforms and portals, what all this, tell me a little about yourself and let's dive in.

[0:02:10.2] KH: Yeah, you know. So, Michigan Tech grad. If you know anything about Michigan Tech, it is far north as you can go in the state of Michigan. Small little engineering school but pretty powerful school out there. Ahead of InvestNext, I worked at a software consulting firm and we did a lot of enterprise software consulting, accounting, system implementations, ERP's. I had a lot of exposure to a broad stance of different softwares out in the space.

But as you kind of touched on, Handshake, which is actually something I was involved at when I was in Michigan Tech was pretty instrumental and kind of forming really my ultimate passion around what I do today, which is product development. Being part of that team growing as part of that initial product team, I carried a lot of that expertise back into InvestNext. And today, that's really forming a lot of what I do in my day today.

[0:02:59.6] WS: You played a – it seems like a really large role during the Handshake development of that software. But you know, tell me how that leads in to designing something like a portal that's going to help operators, syndicators, you know, something like InvestNext like you all began.

[0:03:13.1] KH: It's really focused primarily and foremost, it's user experience, right? When you create an intuitive software where the people can use, not only from an administrative standpoint or not from only from a syndicator standpoint but also something that you can present to your investors. Really, kind of a storefront of your group. A lot of thought goes into the design of that.

And so, I really do it from a lot of my experience in the background of building those systems at Handshake over into what ended up being InvestNext is. Of course, this isn't myself, this is a whole team effort. So, at InvestNext, having engineering team behind us is just a big contributing factor to all of it. It's really pulling the world of tech into a world that is really underserved even at this point of being able to deliver something to syndicators and their investors.

[0:03:57.8] WS: You mentioned that like – I would have no idea what it takes to develop something like this, definitely out of my wheelhouse but you know, what does that team look like to do something like this?

[0:04:06.7] KH: Well, it's interesting, we think about the internal team and certainly, there is engineering so an understanding of the latest tech stacks being able to implement industry-grade security, being able to build a trusted system to handle of course, over a billion dollars of capital today. There's a whole actual building of it but we really look at the team as part of the product development, right?

Everything that InvestNext is today has really been built in close collaboration with from day one, our proof of concept customers that eventually doubled and tripled. Every single product feedback loop has been because of that close interaction.

So, we talk about team internally as obviously the engineers but really the team as a whole, we really like to contribute that out to our closest customers who have placed their opinion in their fact of the matter of what the product is today.

[0:04:56.4] WS: You know, a software system like this, what problems is it solving? What does it do for us?

[0:05:01.5] KH: Yeah, when you think about the problem in the industry as a whole, you kind of have to think of it like the whole context of the problem. And the way we look at it is real estate investment industry, real estate syndication. It's built on entrepreneurs and their network of investors.

To give you a sense of that, you know, last year alone, there was over 167 billion in apartment deals done alone. When you actually look at the statistics around that, a massive portion of those deals were done by again, small, tactical syndicators, entrepreneurs that are starting up their firms, leveraging their network of investors and driving that industry.

The big thing around this that we saw initially is there is no set solution in the space that helps syndicators scale effectively, scale those investment operations effectively. A few reasons why: By and large, the industry standard is you're handling your investor relationships via email, via share files, kind of a hodge podge of communications. Capital raising, time intensive, bottle neck by legal paperwork. And then assuming you get those things relatively under control, there's certainly the aftermath of a capital raise. It's handling those existing investors, the positions among the investors distributions reporting, et cetera. This is just a big bottle neck on the back office to scale effectively.

Then we see, there's enterprise solutions that are geared towards solving these problems but nothing that's actually geared towards the entrepreneur to implement at even at their smallest scale and grow with that. that's kind of the problem that we see as a whole.

[0:06:34.7] WS: So many things you mentioned there and I couldn't get them all written down but the paperwork. I mean alone, it's just horrendous if you're trying to do it all manually. I couldn't imagine doing it that way now. When you can just – Investor can just log in and go through the documents, sitting in their living room on their phone ultimately.

Could you go back into theta just a little bit though? As far as the problems that we're seeing, you all are solving though or maybe we talk about how you all are solving those problems. Let's do that instead.

[0:07:01.2] KH: Yeah, we look at those problems as a whole. And for us, it's disparate systems, right? When you think about, you have a piece of information that's living in your inbox and your email inbox, you have a piece of information that's living on an Excel sheet and shared file. Our whole approach of that problem is, well, it's really building one consolidated platform for managing the entire syndication process. From the moment of capital raise to managing that capital and then all the way downstream to actually distributing, recording on that capital. That's what InvestNext is.

At the end of the day, three components, it's your CRM where you get to manage those relationships of existing respective investors. That ties in very nicely into our online deal room or portal, we're able to communicate our offerings, garner investor commitments, run the entire transaction online.

And then ultimately, you're talking about actually reporting to those investors downstream in a sort of Charles Schwab like paradigm, where the ideas, the investor logs in, they can view their position, their investment in real time.

[0:08:04.0] KH: I like that. I want to be able to communicate on that professional scale, right? Now, I think the listeners that are listening right now, if they're doing deals, they want to be able to look like the Charles Schwab of operators, right? In the syndication – The real estate syndication business. And the passive investors want to know they're working with somebody that wants to operate at that level, I know we do.

We spend a lot of time trying to find a portal, it's not an easy process, that's for sure. The CRM component I know is so important and tell me a little bit about how that helps us on the day to day side as supposed to maybe getting into the actual deal process but how does it function as far as – is that something we're going to use on a day to day basis or we still going to need another CRM kind of outside here on the side as well?

[0:08:49.0] KH: The whole concept around this is you know, we often talk about the system as managing your investors and that's of course what it's purpose built for, right? Managing those existing capital partners and investors. Beyond that, I mean, it's actually the ability to manage your prospective investors, other types of business relationships. So yeah, we see groups across the board, they're utilizing it as their one central database for managing those relationships and keeping that engagement in track.

[0:09:17.8] WS: And then, you know, running the entire transaction online, how difficult is that say on the operator side to make that happen?

[0:09:25.8] KH: The concept here is where perhaps historically, you were perhaps sending out subscription agreements, any sort of subscription docs out manually one-off, the concept here is you build that out once. So, you have your offering or your new project coming up, you put in your general documents you're going to have in place. As you would have used in a DocuSign of an interface, you set your fields once, that's all part of the document that this gets completed in the deal room.

From that point on when an investor goes in, they commit, all they have to provide is their information. So, understanding, committed amounts that they want to put into the project, any business entities that they're investing under. The whole point is you're capturing all of that from the investor perspective and you're streamlining the entire signature process online.

That's just one example of how you streamline that transaction.

[0:10:15.2] WS: What about on the investor side, the ease of use for the investor/ I know, like myself, I mean, I'm concerned about a lot of things when buying a portal but ultimately, I want it to be easy for our investors to use too. If they get frustrated – A lot of the times, there are investors that will just say, "Oh, forget it." You know, just end up not investing. That defeats the whole purpose, right? "I'll do it manually if I have to."

But that's what we're trying to get away from. Talk a little bit about just the investor side or their interface?

[0:10:41.1] KH: Yeah, the investor at the end of the day, they're presented with multiple ways. So, if I'm an existing investor, I can always log into the portal, I can view any active offerings that are shared with me. But beyond that, people that haven't perhaps logged in, they can gain limited access to a deal room, they can still deal all of the key information on the investment. And at that point, they could certainly walk through that entire process on their side to actually run through the whole commitment. That's a whole user experience focused on our side, right?

So, having that locked down and enabling investors to self-enable, self-service their entire commitment process online is key to that experience.

[0:11:16.6] WS: Does it just kind of walk them through the process, just as far as the documents and signing, I know it does. I mean, we use you all. Maybe you can elaborate a little bit. I mean, once I set it up, investor can just go right from one box to the other, reading and signing and makes it really easy, right?

[0:11:32.8] KH: Correct. So, the idea is you know, when you're presented with in the deal room, the prospectus and all of the information, there's a very clear call to action at that point. And at that point, you're saying, "You know what? As an investor, I'm interested in committing. I'm going to make my reservation." And again, you're being walked through the entire process in a very clear process flow, where you're saying, "Okay, first I'm going to commit my capital, then I'm going to decide what my entity I'm investing under," and then it's pulling up all the relevant subscription docs that they need to sign all the way through finding instructions.

[0:12:02.7] WS: What about that signature that – you know, since there's signing electronically. Is that still as good as say ink signature?

[0:12:11.5] KH: Yeah, we actually partner with HelloSign, they're the leading – DocuSign, used to be the leading e-signature platform on the market. But HelloSign – we did actually, it was like an eight-month evaluation of both DocuSign, HelloSign and there was Adobe, they came out on top by all means from an integration standpoint to our platform. They presented the most streamlined approach to actually running an e-signature online digitally verified and water marked that in itself becomes a standard across the board for us.

[0:12:41.2] WS: I know one thing that I really like personally about InvestNext is something that you all integrated is the distribution process. Would you like to elaborate on that?

[0:12:49.4] KH: Yeah, sure thing. So, you know I mentioned earlier so we are talking even about the context of raising capital. So there a lot of sort of stage gates to getting that through and obviously getting that commitment in place and then raising the capital. The next life cycle of a project or an investment ultimately is structuring your waterfall, structuring your distributions with in InvestNext.

So, we do all of that so the point here is you have your subscription agreement in place. At some point, you had a lay out of what that waterfall structure is going to be with your investors, you are able to build that in any given basis, you build out once. And then moving forward you just run your distributions on your cadence whichever cadence you're doing whether that is monthly or quarterly. No need to import any Excel templates or whether that is calculated externally. The whole point of it is day one InvestNext becomes your system of record for handling the waterfall and calculations. And then added to that is all of reporting.

So, since all of that financial data exists in InvestNext, you now can start to report on metrics such as IRR, equity multiple and so on and so forth.

[0:13:48.7] WS: And then when it is time for distributions, I mean we can do it directly through the portal our self?

[0:13:53.2] KH: Exactly yeah, so the next logistical step around this is payments. So, the idea of being not only do you have the calculation in place for what these allocations are for each one of your investors, the whole point of it is we can pay your investors for any of them that not receive ACH or automatic check.

[0:14:09.3] WS: I just personally love being able to have a handle on that. I am still learning it all myself. As opposed to relying on say the property management company to do distributions like we have done for so long, it is great that they would handle that but I always love being able to have my hand on that. I mean it is like one of the most pieces of communication with the investors, you know is their payment, right? And so, I like being able to handle that.

[0:14:31.7] KH: Yeah, we see a lot of great adoption on that. And again, for us when we at the outset it was really obvious that this was a major bottleneck in the back office. So again, when we go and deploy with groups historically, they have either stuffed envelopes themselves or they are relying on a third-party, which becomes a bit of a black box. So again, presenting the option for the operator of the syndicator to transact those payments and track each one of those payments in real time became a no-brainer on our side.

[0:14:58.2] WS: And if an investor won't ACH or check, well you can do either one, right?

[0:15:02.5] KH: Exactly, yeah. By and large we see ACH being the most effective route you can track that payment to the point that lands on the bank account. Of course, we work with a lot of institutions that still like to receive a check in hand for the record. So again, we can facilitate those auto checks as well.

[0:15:17.2] WS: Any foreseeable tech trends or anything in the real estate syndication space?

[0:15:21.6] KH: I think you can extrapolate a lot of what is happening in general tech. The way we see it is investors are becoming savvier. They are becoming more data hungry and part of this presenting information in a very clean format. And so, for us, where we see this reflected is the investor portal.

Today it is ubiquitous, you go online and you go shopping on Amazon and you think about the whole transaction that happened between you and Amazon. It is a no-brainer, things just kind of happen. That is where we see this industry going, right? You have the interactions with your investors. Investors are expected to see all of this in a digital format, they are expected to run through the entire investment online. And then ultimately, see their entire portfolio in a digital format. So, having that sense of automation in place is one of the things that we are seeing becoming a lot more at the forefront for so many the groups we work with.

[0:16:08.2] WS: What's ahead for InvestNext?

[0:16:10.8] KH: For us, obviously there is this constantly optimizing the platform, rolling out new capabilities. But a lot of what we are excited about is really shifting – We are a SaaS company, right? So, we provide a nice system for groups to handle their books and business and we are really seeing the excitement around shifting into sort of a platform as a service.

And what we mean by that is that we are at the point where we are such a critical massive customers and syndicators in our platform that is just makes sense to start to create a bit of a community around this and so one of the things we're really working on in the phase of actually planning is building a bit of an internal network to start connecting LPs, verified GP's across the platform.

So again, still in preliminary mode but we are super excited about that stuff.

[0:16:52.0] WS: So what about questions maybe you could provide or do you have any common questions or things that say somebody is listening right now who is an operator and they are trying to assess different platforms, anything that they definitely need to ask somebody like yourself that maybe they wouldn't know to ask?

I mean you are the software guy and they are kind of coming in and asking for maybe no experience in software trying to figure out which one they should be going with, what are some things we should know whether it's security or whether it is just ease of use, maybe some questions they should know to ask?

[0:17:23.3] KH: Well in this industry right now it is a space where it is really tough to know what is out there and what is the best solution. Because the sense of it is that when you look at a given portal solution or a given tech solution it almost has it's feel like well, "Once I jump into it I am stuck with it." Part of the questions around this is naturally it is going to be ease of use. What is that general sense of maturity on the product?

One side, a lot of what we see is very attractive to go after a product because it has a very small price tag and that cognitively makes sense but the assumption there is also that it is a piecemeal. So, it may not have the entire full breath of the solution you need.

But then on the other side of it, you know you look at products that are aimed at institutions pretty high cost, pretty high barrier to entry and so the thing to keep in mind there is the investment dollars today is it going to be worth – What is the return on that over time? Do I have enough staff in place, enough logistical support to actually deploy this in full and actually manage it myself given my current scale?

What we say and again it is a shameless plug on our end but the way we really think about it is software, the paradigm today of how people shop for software is you should be able to try it out. You should be able to experience it and really the product is going to speak for itself. And so, one of the things we always encouraging our customers to do is literally try our platform out. It is going to speak for itself at the end of day, if you don't like it there is no commitment to it. I think that is how people and a lot of newer generations are used to experiencing and buying software.

[0:18:57.5] WS: Awesome, well anything else about InvestNext that we should know Kevin before we move to just a few final questions.

[0:19:03.5] KH: The thing I'll emphasize is internally we have the motto of democratizing real estate investments and real estate syndication. From us you know bread and butter customers have been everything from small, little syndication shops, handling their handful of capital partners and investors, very small scale. We have seen those groups on our platform grow in no exaggeration to multiple thousands of investors being handled under their book of business. Part of that is just too excited about growing that sense of democratization in this space.

[0:19:32.7] WS: So, what is a way you all have or you have improved your business recently that we could apply to ours?

[0:19:38.1] KH: I would say really investing and it seems kind of a catch all term but investing in technology has been one of our biggest return on investments. At the outset of any startup and I can take this back to my initial days and even at Handshake, I was part of a team that was ragtag college students. And you know we did things that couldn't scale at the time but we could do them because we are a small startup and we could just handle it.

InvestNext has been in that position where we went to market, we did the things that couldn't scale at the time because it was all hands-on deck and we could handle this stuff. Eventually we did reach a critical point of your growth where you are saying, "Okay, we really need to take a pause here and assess our actual implementation technological stack because we understand that if we invest today in that technology that is going to pay dividends down the line. Where we actually hire more head count to manage that growth and that added customer base."

So, I think it is very applicable for groups that are also scaling their real estate business to actually think about the systems that they have in place and just putting that investment today to think ahead of how they're going to scale in the future.

[0:20:38.4] WS: I agree completely. We have spent a lot of money on our systems and trying to have a more professional system than we are even ready for, you know like all the time even whether it is even my personal assistant like I want her to be way ahead of me. You know tell me the number one thing that's contributed to your success?

[0:20:53.5] KH: I would say, I guess this maybe sounds a little cliché but honestly focus has been very key. It's always tough to know what is important versus urgent at least in my personal success. So just having a refined focus of what really does need to get done.

And I think as a culture at InvestNext, we definitely translated that into how we build a product too. We always ask ourselves like, "What is important? What are we building?" Because that really does drive our roadmap and our product. So, focus is what I would say my personal path to success that I've seen.

[0:21:25.3] WS: Are there any tips to that to being able to focus like that or is there a book you read or is there something that helped you with that?

[0:21:31.5] KH: I definitely can point back to a few books that I have read around that. I think the classics of the space I've always been *The 7 Habits of Highly Effective People*, *Getting Things Done* is another one by David Allen. I think both of those books kind of have their own paradigm around being able to focus on what is most important at the moment at getting done.

But you know tactics on how to implement that. You always plan the week and you always plan the day how best you can, knowing that you are going to be confronted with things that you possibly can't expect. But it is kind of the old adage that almost a bad plan is better than no plan at all and that's something I have lived by. To date it is still an experiment and process but that is the approach.

[0:22:08.6] WS: Tell us how you like to give back.

[0:22:10.1] KH: You know a lot of it is – We actually, InvestNext has founded and the core team is actually out of right downtown Detroit. And for us, it's been pretty meaningful. A lot of our focus has really been in staying local to this area, to the local community. Detroit when we talk about it tends to have a mixed reaction. People think while yeah, a grungy city that has hard times. We are proud of it. We are in a city like Detroit the fact that it is a comeback city. There is a lot of people coming back into this area. For us it has been an investment in talent in the local community. So, for us it is getting involved at actually looking at the local community as a talent source has been first and foremost.

[0:22:50.4] WS: Well I appreciate you sharing your time today, Kevin. And I hope the listeners are more prepared now to really find the best platform for them or maybe they understand little more things about what's possible and just the presence that they have for their investors and maybe another way they can step their game up and having more professional presence in this industry. Tell them how they can get in touch with you and learn more about InvestNext?

[0:23:13.4] KH: They can reach me directly at kevin@investnext.com. I am always happy to chat directly. I do that on a day to day basis with all of our customers. That is my email. And of course, certainly I can provide that even with a follow up here but always happy to have conversations and jump on a call with customers and customers not alike. So, I am always open to building relationships.

[0:23:34.6] WS: You all have a blessed day.

[0:23:35.9] KH: Thank you. You too.

[END OF INTERVIEW]

[0:23:37.3] 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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