EPISODE 630

[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, and I'm honored to have him back on the show, is Gene Trowbridge. Thanks for being on the show, Gene.

[0:00:36] GT: Thanks for having me, Whitney. This is always a good time.

[0:00:38] WS: It's been a pleasure to get to know you a little bit, Gene, over the last couple years and just to have you on the show and you being so willing and to share your expertise in the business. A little about Gene, in case you haven't heard of him before, he's the Founding Partner of Trowbridge Law Group LLP. Gene's law practice concentrates on the syndication of commercial and investment real estate through both debt and equity representing over 400 clients.

As a former syndicator, that's something I want to point out to you, Gene used to syndicate deals himself, so he's very well-versed in this business but for over 10 years raised investor capital through the broker-dealer community. He's able to communicate with his clients on both the technical and the practical aspects of state and federal securities law. As a long-time CCIM and CCIM senior instructor, Gene has won numerous awards for his teaching ability.

His book, *It's a Whole New Business,* is really a how-to manual on real estate syndication. I can't say enough about the book in that like if you're in this business, it should just be like your go-to manual that everybody in this business should have on their bookshelf. I think I've got two different copies of it personally, Gene. But, Gene, Welcome back to the show. Grateful to have you. You want to give the listeners a little more about your background [inaudible 0:01:54] and let's jump right in.

I want to tell the listeners too, Gene is going to do a presentation. He has a PowerPoint that he's showing us on the screen. So if you go to YouTube, you'll be able to see this entire presentation of his as we're going through it. But we will try to talk about it enough too. So even if you can only listen, you'll be able to understand what he's showing us.

Gene, why don't you give us a little more about just getting into this business and as an attorney now too? Then let's jump right into your presentation.

[0:02:20] GT: All right, Whitney. That's a deal. Thanks. Well, as Whitney said, I've been in the business a long time, probably three careers; commercial real estate broker, syndicator, and lawyer. But the ones, the careers that you're most interested in is with my syndication career where I did 16 syndications and primarily in the area of building storage facilities. I built 24 storage facilities.

At the height, Whitney, of my insanity, I sent out 1,676 K-1s in one year. Somewhere along the line there, my line is that the care and maintenance of partners got to me, and I got a little burnt out. Things were different then. There weren't third-party companies that would help you in the back office and whatever. I just got burned out. What do you do when you get burned out in your 45? You got to law school. Isn't that perfect? So I went to law school, Whitney, and graduated. Ever since then, for about 27 years, I've been practicing the law of syndication.

You've mentioned the book. That's great. I appreciate that. For those of you who are looking at the slide, there I am doing one of my favorite things; carbo-loading after a half marathon in Kauai, which this year has been canceled. Go figure [inaudible 0:03:46]. Kauai has really strict travel, and this was going to be right around Labor Day. It's always around Labor Day. They canceled it but they're going to try to do it virtually. I have no idea how that's going to work, so I'll fill you in on that later.

[0:04:02] WS: Why become an attorney after that many successful deals as a syndicator? What pushed you to say, "Well, I'm going to go to the legal side."?

[0:04:10] GT: I always had cracks in my syndication business where I needed to really grow. I needed to take more space physically. I needed to hire more people. That's been something that's always been an issue for me. In each of my careers and really right now, when I've been faced with kind of the urgency of getting bigger and growing, I pulled back. I have a comfort zone that I work in and I thought I would pullback from being a syndicator.

Of course, I made a lot of money. I had a lot of money coming in for six or seven years ahead and I thought I'd stay in the industry. A good way to stay in the industry would be to go to law school. It's something that I had thought about for many, many years, and this was the perfect time. So I get –

[0:04:57] WS: Nice. Okay.

[0:04:59] GT: The purpose of this presentation which is titled Sell the Sizzle, Whitney, when I do my own training sessions, I usually end with the slide you're looking at right now, which are steps that you should take starting the next day to do your deal. It's pretty much focused on people who are going to do their first deal. The second step is to develop a database of 50 investors where there's a 50% chance of each of them giving you $50,000 when you asked them and maybe even a referral.

If you ended up with 25 investors who really gave you 50,000, you would have 1.25 million, and that fits right in with my idea that your first raise should be 1.5 million, depending upon where you are in the country and what you're doing. But if you knew your databases was going to give you that much money to start with, you would be pretty comfortable to get started on your deal.

This comes out of my world of syndication, what I learned when I was raising money. Someone gave me this idea. Sell the sizzle. I broke that down into four steps. The first step is to sell the sizzle of real estate itself. The second step is to sell the sizzle with your part of the real estate world. The third step is to sell the sizzle of having you manage your investor's money. The last one is to sell the sizzle of your deal.

I'm just going to briefly go through what I mean by all that. One of the things I found and I think investors should know when you're trying to build this database is let's not put people in the database who aren't interested in real estate. If your people are only going to put in stock market, well, they're not going to be one of those 50% people who's going to give you $50,000.

When you go out and you start prospecting for people for your database, and this is all about building your database, you've got to focus on the opportunity that's provided by investing in real estate. Tell people how important it is to be diversified with real estate in their portfolio. An acronym that I've used all my life, it's in my book, real estate is the ideal investment because it produces income depreciation, equity buildup, appreciation and leverage. So you can tell people real estate is a good deal. Then you come up with some anecdotes. Who do you know that's invested in real estate? What is the history of this country about people who have invested in real estate? I really think you have to build the sizzle of getting people interested in real estate. If you're not, forget them and go to someone else.

[0:08:11] WS: I know when I was first exposed to real estate myself, that was one big thing that came across to me was I started reading more and more about it. It's like so many people have built wealth in real estate. It really gave me more confidence to think, "Okay, it's not like one or two people have. They came up with this amazing thing called real." It's like, I mean, hundreds of thousands of people invest in real estate, and so many have built extreme wealth. I thought, "Okay. If they can do it, I can do it too."

[0:08:37] GT: That's right. But still some people, they're worried about the management, the sort of time, the initial entry costs. It's all sorts of stuff, and I think you kind of need to deal with that before you put these people in your database. Because once they're on your database, you're counting on them to give you money. Maybe not in the first deal but you're counting on them to give you money sometime, so why maintain someone in the database who is just not going to do real estate.

[0:09:06] WS: I know some people who struggle there would be, “Gene, well, what if I keep showing them a couple deals and then eventually they change their mind or they eventually ask more questions? Would you say we still just shouldn't have them in the database just because we want to know who we can count on?”

[0:09:21] GT: That perseverance you're talking about isn't really part of what I'm talking about today. I’m just talking about how are we going to get 50 people in there.

[0:09:29] WS: Okay. It’s so important.

[0:09:30] GT: We can have – I mean, you probably had a huge database and not everyone listens every day, right?

[0:09:37] WS: Certainly.

[0:09:37] GT: You’re going to beat them over the head. This is a war of attrition. I think [inaudible 0:09:40] but certainly, and maybe your database is in a software program that you identify the people as hot or maybe a little more lukewarm. It’s lukewarm. It’s never I suppose wrong to put someone in your database and soft sell them, but that's not where you’re going to get your money for your first deal.

Then the second thing I think you need to do, Whitney, is sell the sizzle of your part of the real estate world, and the real estate world is huge. What part of the real estate world are you an expert in? That’s who they’re going to want to invest with anyhow, someone who's an expert in something. Well, this probably takes you to some self-understanding and say, “Okay. I’m going to be a multifamily expert.”

I was a self-storage expert. I wasn't an expert in running self-storage but I could pour concrete. I was an expert in building storage facilities, getting a manager in there, getting them up and running. By the time you got to 40 or 50% occupancy, your absorption rate, they were ready to sell. They were people who wanted to buy storage facilities and would go away and then run them. In fact, for quite a while in my career, I was selling my storage facilities to public storage. I had orange roofs and orange doors, and built them exactly to their specifications, and so that – They weren't in the building [inaudible 0:11:14] at that time.

You got to find what are you a specialist. In this area that you think you're going to be a specialist or you are a specialist, what are the opportunities you seek? I mean, today if we're going to talk multifamily, we can talk about housing. We're going to talk about mobile home parks. We can talk about maybe the new answer to low-income housing. We're going to talk about student housing. What area do you want to be an expert in or are you an expert in, and what are the opportunities in the marketplace? No one's going to invest if there isn't any opportunity, and so you have to show them what you think the opportunities are and then show them the solutions that you propose to capture what's available in those opportunities.

Right now, you're talking to people who are interested in real estate. Now, you're kind of chunking it down to your part of real estate, because if – Believe me, there are people who will never invest in the construction of storage facilities. If you want to put them in your database, that's fine, but identify them as not a hot prospect. The beauty of multifamily is almost everyone's lived in some sort in an apartment. Some sort of an apartment, whether it's a duplex, a fourplex, a high-rise. We all understand that, and that's kind of why many, many people will pick that as their first investment choice because they now understand it. I mean, who understands a freezer storage facility? No one understands that. So find your expertise and what are the opportunities and what are you going to do to solve those opportunities you see.

One of my more active syndicators, this is active, we've done 108 deals with them since 2014, is into many hotels, student housing, and coming in and recapitalizing a property that maybe didn't quite raise enough capital or things haven't gone exactly right, and they just come in. Their typical offering is five or six million dollars. They come in. They dump in cash. That solved the problem. They take over the management and they get the property where it should be. They refinance it and they get the hell out of there in two or three years. Extremely successful syndicator but they found a specialty. They found a niche, and I think that's important.

Now, you found people who are interested in real estate, people who are interested in your part of the real estate business. Now, you've got to sell the sizzle of you. Why would anyone give you their money to invest in real estate? Well, you better have a list of your individual credentials. In my world, I was a CCIM. I had been a broker. I had done some smaller syndications on myself. I was ready to go. So I had credentials. Better have some credentials. They're going to ask you if you've done this before and you can – All of us have had to say no. If the question is have you done the syndication [inaudible 0:14:47]. We've all had to say that once, but what's the comeback?

I may not have done a syndication but I've flipped 200 houses. I own three apartment buildings myself. I'm on a team. Introduce your team. Who have you gathered with you? Show them that you have this core group that believes in the opportunities and can provide the solutions that you saw. What are the solutions? Now, I've developed a team. I have put this team together. We can go out there and we can capture in the opportunities.

One of the things – You've heard me say this, Whitney. The first question an investor is going to ask is, "Whitney, if I give you my $50,000 to put in your deal, what's going to happen when something happens to you?" You need to solve that. If they haven't asked you that question, they're going to ask you that question. So by selling the sizzle of you and keeping the story of your team, that answers that question for them.

The second question they ask is, "Whitney, have you done this before?" You may have to answer that question no. But if you have the credentials and your team has the credentials, you can overcome those two objections pretty quickly. Don't you think, Whitney?

[0:16:09] WS: Yes. I've seen so many people get into this business in that exact same scenario there. I tell people that also. Team up with somebody that's more experienced than you are so you can do exactly what you're talking about here and you're really selling your team the power and experience of your team, the people you've surrounded yourself with.

[0:16:29] GT: I have people who come to me and want me to review the private placement memorandum that some other attorney has drafted, so they can invest with some other sponsor, and I don't do that. But the one thing I will do with them is I will say, "Have you looked to see the makeup of the managing member of the general partner?" Yes, Gene, I have. "Is it an individual?" Yes, Gene. It is. In my best legal advice, I say to them, "Don't do that deal. Don't' do that deal." I could go on with it and have a whole session on six or seven times that I've seen in my career a bad fallout from an individual person being the managing member. We'll save that for another time.

[0:17:19] WS: Yeah. We should do another show on that.

[0:17:21] GT: That's [inaudible 0:17:21] and that's a great advice to people. Don't do it unless there's two people. Now, a third question they ask is, "Whitney, are you going to invest some your own money?" You need to have an answer for that. You don't always have to invest some of your money.

[0:17:36] WS: I get that question a lot.

[0:17:38] GT: I mean, Whitney, you're signing on a $3 million loan. What's the $20,000 of your cash have to do with that, and that's an answer. Well, no. I'm not investing any of my money in this deal. I'm fronting getting it done and then signing individually on the $3 million loan. I'm committed to this deal. Maybe that won't work, but that's a good answer, and I don't think a lot of people think of that answer. They just think of, "Well, yes. I'll put in the new thing that all the other investors put in." Well, yeah. But they're not signing the $3 million loan. That has some value, doesn't it? [inaudible 0:18:17].

[0:18:18] WS: Sure, it does.

[0:18:19] GT: That's all good. We've sold the sizzle. I'm thinking about building my database. I've sold the sizzle of real estate to someone. I sold the sizzle of my special area in real estate. What are the opportunities I see? How do I think I'm going to capture those opportunities, so we can all make some money? Now, why should I be the one that you would invest your money in, myself, my team? If you have some prior results, great. That's wonderful. Somewhere along the line, you'll have a track record. This is where you tell them the track record.

Then the last thing you do is the sizzle of your deal. Do you have a nice, concise, one-page marketing piece that says, "Here are three or four key benefits of this offering. How does this offering provide the solutions you identify in your product type? What are you doing to solve the problem?" Show them that with your team, you can manage this deal. Ask questions of the investor and ask for the order.

What I built here is I've built—If you would, I visualize a pyramid from the bottom. Everyone who's interested in real estate go up a little farther because some people are going to drop off. Everyone is interested in my special area of real estate and the opportunities I have identified. Some people will drop off. Now, here are the people, a smaller group who really want to invest their money with me. Then on the top is the deal. When I learned this, Whitney, I had my pyramid tipped 180°, 180°. I was going right for the kill of selling the deal the minute I met someone. I didn't know if they knew enough about me. I didn't know if they were interested in my part of real estate. I didn't even know if they are interested in real estate. But as you said earlier, I'm just going to wear them out. I'm just going to show them 5,6,7,8 deals. Eventually, they're bound to invest with me. No.

I think building all of this puts people in your database so that when you go with a deal, I'm still happy with you and happy for you if you have a 50% success rate, because not every deal is going to be right with everyone. But you really got them crying for the deal, haven't you?

[0:21:00] WS: For sure. For sure. I always say that an investor is investing in the operator more than the deal. I mean, always. If you haven't sold yourself and these other things that you listed out first, the deal is not going to mean a whole lot.

[0:21:15] GT: That's right, and I actually think that the syndication business, Whitney, is more about managing the investors than it is the property. So many of the people you know who are sponsors buy properties geographically in a different area, and they hire professional property management. What the syndicator does is manage the manager, but the syndicator's got to take care of the 20 investors. That's what will wear you out, the 20 investors, because over five or six years, 20 investors, someone's life is going to change. Someone is going to come to you because you had their money, right?

[0:21:52] WS: Right, yeah. It's going to turn into a lot more than 20, isn't it, over that many years?

[0:21:56] GT: As an attorney, I have gone through these four areas of sizzle and I think they're very good but I got to come back to the Securities Law 506(b), Regulation D Rule 506(b), where 93% of the private placement money in this country is raised. In the last report that came out from the SEC over a 12-month period of time, it was 1.4 trillion dollars raised in private placements, and 93% is raised in 506(b). What do you have to have in 506(b)? A pre-existing –

[0:22:40] WS: Pre-existing relationship.

[0:22:41] GT: Substantive relation. If you've gone through these four steps, and the final one is pitching the deal, don't you think you have that? Don't you think they know enough about what you're doing to be interested in hearing about a deal? Don't you think you know enough about them through your questions and answering to know that this is the type of deal they'd be interested in? You're just building that substantive relation, and it's all happening before you have a deal. Pre-existing means before you have a deal. I think this all works.

[0:23:23] WS: Awesome. I'd love to have you back, Gene, and let's talk a little more about that too, that pre-existing relationship. We may have already done a show even more than a year ago about that, but that is a question I get often about that with the pre-existing relationship and some of those details. But one thing I wanted to ask you about that last slide though, the 506(b), 506(c) as far in your slide, there should – PPM recommended/required under 506(b). Then 506(c), it says recommended. Is it not required sometimes under (b) and is it – Or (c)?

[0:23:54] GT: There is a rule and it's Regulation D Rule 502, and 502 covers the issue of disclosure. The basic premise in the Securities Law is that you give the potential investor all the material facts ahead of time, so they can make an informed decision. When Regulation D was written, there were two types of investors; the rich and smart and the ones who weren't rich and smart. If you have any of the latter, any people who aren't rich and smart, accredited, you have a sophisticated investor and you're required to give them a private placement memorandum. That's the rule. If everyone is rich and smart in 506(b) or 506(c), so everyone needs accredited, you're not required to give everyone a PPM.

You are, however, required to give them all the material facts ahead of time, so they can make an informed decision. How do you do that most safely? You put it in writing. You're going to give them an operating agreement. You're going to give them a property package. You're going to give them the subscription agreement and the offering questionnaire. Now, that in itself is part of what I call PPM. The only thing we don't have is the story, the disclosure, the front document. You wouldn't need that front document in the right deal.

I'm doing a deal right now where there are four investors investing a total of $2 million in a property in Bend, Oregon, and they're all accredited. They have all invested with the sponsor before. We're not going to do a PPM. We don't need it, but what are we giving them? We're giving them the property package, appraisals, and all, everything about the property that an individual would get if they were going to buy the property. We're giving them the operating agreement. We're giving them a subscription agreement, which is expanded into – I've included some conflicts and I've included some risks, and that's just fine. But I wouldn't do that if there were 10 accredited investors, because I know my sponsor from the time he starts raising money until the time he's finished raising money is going to talk to all these people. How do I know he's going to tell everyone exactly the same thing?

So we put it in writing. Everyone gets exactly the same information, because things change while you're working on a deal from day 1 to day 60, right? We got to put the final words in writing. 506(b) I wouldn't think ever of not doing a PPM. Even my most prolific client that I talked about in the 108 deals, he does 506(b) exclusively for accredited investors, and I've approved 108 PPMs for it.

[0:27:12] WS: Wow! All right, Gene, maybe we can include even more detail about PPMs and stuff like that in another episode. I'm grateful for this presentation though. I think it's a great way for people who are getting started and trying to build their network and thinking about the process of getting to that first deal. This is a great layout of something to go through.

[0:27:32] GT: Whitney, it's good for passives too. Before I invest my money, what is the opportunity that the sponsor sees? Always we put together a team that's going to capture that opportunity so that his results that he's talking about in the offering are going to be met and is this the person to whom I'm going to want to entrust my money.

[0:27:54] WS: All right, Gene, just a couple final questions. What's the number one thing that's contributed to your success?

[0:28:00] GT: Being a mentor. Being a mentor through education-based marketing. I don't market much at all unless there is an educational component to it.

[0:28:12] WS: How do you like to give back?

[0:28:13] GT: Mentioning.

[0:28:15] WS: Awesome. Well, Gene, I'd like to tell the listeners too. I don't know if Gene even knows this but his book – There's actually a link to his book on our website. We have a recommendations page. If you go to the about tab at the top of our website, lifebridgecapital.com, you can go down to a recommendations page, and you'll see lots of equipment and things that I use, other books that I've recommended. But Gene's book is on there, and you can find it very easily there. Gene, how else can the listeners find you and learn more about what you're doing and how they can work with you, Trowbridge Law Group?

[0:28:45] GT: That's so exciting that you mentioned the link, Whitney, because if I sell four more books, I can retire. I'm just $100 short of my long-term goal. No. The best way to get a hold of me is just to call me. (949) 855-8399. That's my direct line, and I'm on the phone constantly. Email gene@trowbridgelawgroup.com. Go to our website, Trowbridge Law Group, and you'll see stuff. We're building our website and improving it all the time. Thanks for that, Whitney.

[END OF INTERVIEW]

[0:29:26] 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]

[0:30:06] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

[END]