

EPISODE 633

[INTRODUCTION]

[0:00:00.0] 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]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Bruce Petersen. Thanks for being on the show Bruce.

[0:00:32.8] BP: Hey man, thanks for having me.

[0:00:34.4] WS: Yeah, honored to have you on the show. Bruce, National Apartment Association Rental Owner of the Year, 2017 Think Multifamily's Investor of the Year, and was it 2019 your relationship book? Was that last year?

[0:00:46.3] BP: No, it came out in May of this year.

[0:00:48.4] WS: Came out May, brand new, awesome. He just released a book and he's going to tell us about his book, and we're going to go over some things why this book is going to be important in your syndication business and getting started in this business as well. Bruce, give us a little more background on your history in syndication, and maybe even why syndication was the path for you?

[0:01:06.1] BP: My background, I'm a college dropout, I was a retail guy for almost 20 years and realized, "This sucks." I quit doing that, I invested my money wisely, saved my money all along the way, and then I found a mentor that taught me how to invest in real estate because I

thought, “Well, that might be the next logical step for me, is try to figure something else out other than retail.”

Luckily, I did find a good mentor, somebody that had a lot of experience and I listened to him, is what it boiled down to. I went straight into syndication, I never been a single-family rent home, I never bought my own apartment complex. Everything I've ever done has been a syndication, again, because I listened to my mentor, the people around me that knew how to do something that I didn't know how to do, but they convinced me that, “Look, you have the skillset because you've led people your whole life, piece of cake there. You communicate well, you have money, and you have time, so don't go buy two or three single family rent homes, pay them off and live on that cashflow. You need to step your game up a little bigger.”

I listened, my first deal was a 48 unit because again, they said, “Don't start with a 5 unit, like everybody wants to, or a 12 unit to learn, go as big as you can because if you get over 40 units, rule of thumb, you can afford somebody to work for you as well at the property.”

Yeah, that makes sense, because I didn't want to buy myself a job, that's kind of how I got started. Syndicated everything, we've done 1,100 units plus now, been doing it for about eight years.

[0:02:30.9] WS: Can you give us just a sentence or two on finding that mentor? I know a lot of people listening are looking for that individual.

[0:02:38.1] BP: I just started doing some Google searching. At first, I reached out to my personal network, just friends and family. “Hey, who do you know that invest in real estate that would be willing to – I'll pay him, I just need someone to teach me how to do it because I know this is not like buying a \$10 stock. If I screw this up, this could be really expensive.” Nobody I knew, knew anybody that could help me.

I had a few real estate agent friends but they were selling retail homes to families, right? That couldn't help me. I just did a Google search and typed in – no, I didn't say multi-family, I said “real estate mentor central Texas,” which is where I am. I looked at a couple of different websites and talked to a couple of different people, and I found a woman that was a multi-family

broker. She was actually a buyer's agent, which is kind of rare, but she had been a regional manager for a lot of her years too, and now she has a brokerage license. I kind of fell in with her and just listened to her every day on every thing, because I was smart enough to know that I didn't know what the hell I was doing.

[0:03:40.0] WS: That was probably a key right there, wasn't it? Just understanding that I need some help and not thinking you know it all already.

[0:03:46.0] BP: Right, there's a big stigma out there, the word guru gets thrown around a lot, and everybody kind of recoils when you say guru. She wasn't a guru, she was a coach or a mentor. I think everyone should have a mentor. You're going into something that is very expensive, there's a lot of risk, and there's a lot of stress, and you try to do that on your own, I just think that's a horrible idea. Maybe that's a recipe for disaster but you're definitely upping the odds of having something disastrous happen. I think everybody should have a coach or a mentor.

[0:04:17.4] WS: Maybe more than one.

[0:04:18.7] BP: Absolutely. I believe that fully too because people will have different outlooks, have different experience levels. I have lots of mentors in my life, I still have people that I call out too when something comes up in the apartment industry, I've been doing this for a while.

You're always going to learn from other people, but I've got people in my financial life, so – yeah, lots of mentors, “lots of models,” I think at Tony Robins called it. Yeah, lean on smarter people than you always.

[0:04:45.8] WS: Give us maybe the reasoning behind the book? Kind of your purpose and how you're helping others in writing this book, what that's going to tell us, and let's dive into that a little bit.

[0:04:54.2] BP: All right, the book, I felt I had to write it, and I know that sounds probably cheeseball and all that, but I felt I had to write it. I've mentored people in real estate syndications

for six or seven years now. What I kept noticing is that everybody would get into this or start down this path thinking this is super simple, right? I understand spreadsheets.

Nowadays, it seems like everybody's being told or at least, went through it themselves that I can only raise about \$4 myself, I don't know anybody, but if I do a deal and I bring a hundred people, as an exaggeration, but multiple people into a GP, we could all raise \$4 a piece and then we can go out and do this.

People think it's a lot easier than it is, because you'll have people, these traveling roadshows that these two day free weekend events, or very limited dollars to be paid, but they're just trying to bump you into a coaching program. Again, there's nothing wrong with the coaching program but they're trying to sell you something, somebody's trying to sell you something. If somebody's trying to sell you something, they're going to not give you all the warts necessarily. They're going to tell you how great it is and how, if you join my program, you're going to rich tomorrow.

I work at 7-Eleven today but tomorrow I'll be worth 14 billion dollars. That's what they're hearing if they don't say it directly, which they're not going to say that but that's what they hear on stage. They're going to hear what they want to hear. They're going to get all wrapped up in the hype and the emotion of the event, and they're going to get into something that very often they should never have done because it takes a special person to do this. That's what I'm trying to do with the book is pull the curtain back, for the price of the book, not a \$25,000 program or a \$40,000 program.

I'm showing you, every step of the way, everybody that you need to work with, when you need to work with them, how to get your deal done once you're under contract. I go through everything but I've got a lot of stories in there too about how I've lost money, we've had dead people, we've had arson, we've had home invasions. I want people to understand that this is a great way to make a living, but there's a lot that goes into it and it's a lot harder than most people think.

[0:07:00.8] WS: No doubt about it. I've seen it time and time again myself. I just remember it was a big process for me looking for a mentor years ago, but it was a big process. I did not take it lightly and I'll tell you, you know, you hit on it, some there too where I went and traveled to

different conferences just to hear different mentors, “mentors” speak. Just go get a feel for them and maybe talk to them in person before I handed them any money, right?

There were numerous and it just felt too sales-y. Exactly what you're saying, “I just don't feel like you have any of my interest in mind here.” That made me keep looking until I found someone that I felt was more genuinely concerned about me learning the business. Knowing that it's not going to happen overnight.

[0:07:40.5] BP: Right, I feel that most of them – I think they're good people but most of them are transactional, they're not very relational, right? I wanted somebody that I can have a real relationship with my coach or my mentor, not just be one of 40,000 people that signed up for your national program. Again, they're good programs, lots of good education but it's just, that's not what I was looking for, I was looking for somebody to be kind of in this with me.

[0:08:06.7] WS: Yes, any other myths that maybe help people kind of debunk a little bit, getting into this business, besides it's not going to happen overnight and it's not as easy as what most people kind of envision that it's going to be?

[0:08:19.4] BP: Well, the biggest myth I would think – and I don't hear as much of it as I did in the 80s, I'm 51 so I remember the gourd and gecko 80s with Wall Street – but other people's money. Zero money, zero credit, that crap doesn't work. Now, having said that, every once in a while it will work. It can work but it's exceptionally rare, its really hard. Now, I end up with no money in a deal also but it's because I bought one with a lot of money down, 20 to 30% down, operating capital rehab dollars, closing cost, all that stuff.

But then, two to four years down the road, maybe I can do a cash out refi, pulled my money out of that point, but it did take a lot of money to get involved in the beginning. It's the people that are saying no money, no credit. Again, it's not that it can't happen, it's so hard and so rare, that's the biggest myth to me. It still is out there, it's not as common as it was, but people still believe that a lot.

[0:09:13.1] WS: What about just advising others to get started now? You talked about your mentor said, “Don't go small, go as big as you possibly can,” and I know you probably get as

many questions every week that I do just getting started in this business. You know, how do we do that, what does that look like? From what you know now and looking back on how you got started and you've helped many people get into this business and do it successfully.

What do you advise now? Is it, obviously finding the mentor, but as far as deal and maybe the part of the business we should focus on and things like that, what should we do?

[0:09:43.5] BP: The number one thing to focus on is money. Everybody always asks me, "Do I find the deal, then get the money? Do I get the money and then find the deal?" Always start with the money, do not find a deal. If you find a deal with no money, you can't do anything with the deal.

The way you're likely going to structure your first deal, which would be a 506(b) – I don't know how sophisticated your listeners are, if they've done this before, to know a 506(b) – if you file that way with the SEC, you can't send your deal to people, you don't know and don't have a preexisting relationship with. If I meet somebody today, I can't send them my deal tomorrow. I'm not allowed to. If you find the deal then go raise the money, well, almost without exception, you're not going to be allowed to raise that money.

You got to start with money first, and you just got to get out there, you got to get past your fears because a lot of people, most of us were taught, don't talk about money, right? That's how we were raised, you got to talk about money guys, you have to. If I'm going to talk to people at a networking event and this is where we start our relationship. You know, we're trying to get a feel for each other. An early question for me is going to be, "Okay, thanks for the interest, I'm very flattered, if I do find a deal that fits what you're looking for, how much you're looking to invest?"

A lot of people don't feel comfortable doing that. If you don't, how do you know how much you have raised? If you need a million dollars to buy a deal and you've got a hundred people and you think all of them will be good for at least 50, and then it's time to raise the money from them, actually get the money into the business bank account, and they all give you \$3, well now you're stuck, right? That's the biggest thing.

Again, raise the money, build a network, build a database, get out and talk with any and everybody you can, let them know what you're doing, and what I tell people also with that respect, everybody says, "Obviously, I'll start with my friends and family," bad idea. Friends and family are going to chew you up. Because if they were going to do it, they would have already been doing.

I think you need to go to find people that are already of the mindset that real estate is a good investment class. It fits what I'm looking for. If you try to convert people, why their 401(k), IRA, the stock market is not a good idea, it's not going to go well.

[0:11:49.8] WS: Where do you suggest, say finding those people, especially getting started, someone has no network really to begin from?

[0:11:56.1] BP: Well, first, just start with the Meetups, right? Every major metropolitan area will have 10, 20, 30 different real estate and Meetups going on all the time. I started my own Meetup and that's where almost everyone of my first investors came from. 2011, it was me and one other guy.

We just started meeting at Starbucks every other Wednesday, and that grew from just the two of us till about four years later, we were at three or 400 people. That's what I did is – I'm not the best networker to be honest. If I walk into a room and I don't know anybody in the room, I freeze, I don't know what to do, I get really anxious, my heartbeat starts to raise. That's really tough for me but by starting a Meetup, it was my Meetup, they were coming to me, I didn't have to go seek them out, they were coming to me. When they would come in to the Meetup, they would want to come up and introduce themselves.

You're seen as kind of an authority figure just by starting it. Even if you're just learning the ropes, you're still the organizer, so they're going to seek you out. To me, that's the easiest way to do it but now, everybody and their brother has a Meetup now. That's fine. You can still start a Meetup even though there's 400 in your city. If you have a different Meetup, a unique Meetup, and bring value to that Meetup, quality will always rise to the top. If you got something to say, and a different approach, and you can bring value, I think start your own Meetup.

[0:13:18.0] WS: I like that idea. We've talked about it on the show and just the value that can happen there for your own business, but I love how you use the quality will rise from the top – raise to the top. We get in there and provide value to those people that are there, right?

[0:13:30.1] BP: Yeah, like I wrote the book and everybody is well there. You know there is hundreds of thousands of books on real estate. Well, if you've got a different message or you have something of value to say and you can communicate, well, write the book, start the podcast, start the Meetup. Do whatever you want to do, don't let the fact that other people are doing it dissuade you from doing it because you'll never get anywhere in that way.

[0:13:51.3] WS: For sure. Now, I am a walking testimony of that right there myself. So I couldn't agree more there. Get out there and make it happen. So now you are starting a Meetup, what were some success tips to your Meetup? I mean three to 400 people in a few years that's pretty successful Meetup, and I think you said you raise capital over your first deal out of that Meetup, is that right?

[0:14:11.3] BP: Absolutely. So the way it grew, it grew pretty quickly. You know I just aligned myself with other Meetups, other investing groups and we just let them know that, "Hey, I'm here at this event with you," but "Hey, I'm doing my own thing over here on the side." No pitch, I am not selling anything. I just want to talk about real estate. I am trying to learn it. I love what I am learning so I just like to sit and talk with people.

So you know, I would gather people from all of these other events that I went to, and again, it just mushroomed. People would reach out to me and say, "Hey, I've heard..." I never even talked to them, "I heard." So that network effect really started to kick in and it grew very quickly.

[0:14:46.8] WS: So Bruce, what's been the hardest part of this syndication journey for you?

[0:14:51.4] BP: The hardest part – well, let's put this way, the hardest part for most people is understanding how to be transparent, to get out in front of things that come up, because things are going to come up. No matter what you do something is going to happen. Like I said, I brought property not expecting to find a dead guy in my pool one day, but I found a dead guy in my pool one day. That's not easy.

That's probably the most difficult thing for most people is to deal with being transparent, being a standup person, communicating when it's not fun to communicate. So the hardest thing for me though, like I said, just a very specific thing I hit on it. The hardest thing for me was networking honestly. I started my own Meetup but that's kind of the reason I started my own Meetup because I don't know how to go work a room.

If I go to somebody else's real estates function, again, I'll stand in the back of the room knowing I need to talk to all of these people because I need money to do a deal, but I can't make myself do it. I freak out and I had to turn around and walk out the door. So for me it was trying to get over that fear of talking to others. I can stand in stage in front of 10,000 people. Perfectly at home there, but you put me in a room with people I don't know, when I got to do this small talk, one-on-one speed dating thing, oh my lord I suck at that! But my wife is really good at that.

So I just follow my wife around the room, you know? So I identified a huge weakness of mine and I didn't try to change it because it is just not who I am. I just found somebody that had the skill that I didn't have. Luckily it was my partner so we just tagged team around the room together.

[0:16:23.1] WS: Tell me about just in this business, you've got a lot of experience down over many years. I was asking on the show how somebody prepares for a downturn or potential downturn. So now that all this has happened with the pandemic and stuff, can you elaborate a little bit on like how you were prepared for something like this? Or maybe moving forward how, maybe it's changed even, how you operate a little bit, or how we should be thinking about properties now that all of this has happened?

[0:16:45.5] BP: Well, I think the biggest thing is to stress test a hell lot of a property, and you should always stress test a property. People start falling into the misconception too that, "Oh well it's real estate. Rents always go up." No, they don't. Rents go down fairly regularly. Now it might be every 5 or 10 years maybe even 15 years, but eventually you're going to have another market trough where rents will go backwards. You better stress test your property and I don't think everybody does this.

But I know it is fairly common that people don't raise enough money. They think, "I've got to buy a property with the down payment and the closing costs. I need 25% of the purchase price." Well, that's not nearly enough. You need an emergency fund just like in your personal life, you need an emergency fund. So, one thing that I have learned, we have ample reserves but now I'm thinking, "Okay, well, maybe I am still going to take them up even higher than I even had them before."

My reserve threshold has always been one month's expenses, including that service for every property. I am thinking about going to one and a half to two times that. So one and a half to two months of reserves on hand to make sure I can pay my bills. So I think that is the biggest thing that's come from that and, with this market downturn, and I have been saying this for years, that when the market corrects – now, this black swan event, this is kind of a unique correction that is not typical, but always put money back into your property.

Don't bleed your property of all the profit, pull it all out, put it in your pocket, and go buy a nice Rolex watch, or whatever you're going to do. Don't do that stuff. In an up market, you have to be putting money back in the property, because things are going to change at some point, but then also, we're huge on community. We have our own management company so we have a lot of control over our investments and we are huge on reviews and community.

Well, I'm talking to some people that, "Oh Bruce, you know you'd make a lot of money being a slum lord." Shut up, just get away from me. That is of no interest to me at all and I stopped talking to those people. I'll walk away in the middle of the conversation, because the slum lord is really struggling right now because you've treated people like crap for the 5 to 10 years of flush times that you had and now, when you might need a little bit of understanding and residents to maybe work with you a little bit, they're not going to.

They're going to leave you or they're going to dig in and not pay you anything, even though they can, because they know that you can't even evict no matter what for a while. Treat people like human beings, really look after your residents, and be looking for those reviews because everybody is looking for reviews. If I've got a place, side by side, one is a four star review one's got a one, I am going to go running to the four star review place even if it is a little more expensive.

So again, just think about everything in the good times that – bad times will come and you need to be prepared.

[0:19:28.3] WS: What's a way that you've recently improved your business that we could also apply to our syndication business?

[0:19:33.8] BP: So I guess the most obvious thing, we just implemented an investor portal, right? So we are talking about the syndication business not the apartments, but we started up with InvestNext and it made it a lot easier for us. So now everything that we do gets posted into the portal. We make payments out of the portal for our distributions. We raise money, it goes through the portal. It is a one-stop-shop. If you are invested in two, three, four, five deals with us well all of your deals are right there on that one portal.

You can see all of your return metrics, you can see everything. So that's been the biggest thing but that honestly that comes with scale because if you have a 24-unit for your first deal, you can't afford to pay somebody 1,500 bucks a month to have a portal. It's expensive, but when you do get scale, it makes things a whole lot better and easier. When I first started I was doing everything Gmail. Gmail is fine for some things but now we have a full fledged CRM on top of InvestNext.

InvestNext has their own CRM, but we also use active campaign. So we have digitized almost everything. We have automated almost everything or set up with DocuSign. So it's a lot of technology that has made a big difference for us.

[0:20:44.9] WS: Nice. We also use InvestNext. I can't recommend them enough, give them a little plug here, and just so listeners know, in case you haven't heard you can go to our website, lifebridgecapital.com, there is a recommendations page and I actually have a link there where you can get more information about InvestNext. So I am glad you brought them up. They're great guys, they've been super helpful to us as well. So what is your best source of meeting new investors now?

[0:21:07.1] BP: This, really. I wrote a book right? So that is a big deal but not everybody is going to write a book because a lot of people are starting out on this, so you don't have a lot of knowledge but it was writing a book and then going showing up at everybody's podcasts. I think you got a pretty good reach, but even if you're a brand new podcast and I am going to be your first guest, I just like talking about this stuff. The more people I can get out there and talk to about this, the more people are going to know me.

My job at the end of the day is to deliver returns to investors, yes, but it is really raising money. That's my job. I am a professional money-raiser. You know this is my cheeseball line: I can make a lot of people a lot of money, but if I can't reach anybody I can't make any money for anybody, right? So I've just got to get myself out there. So I have to do every podcast that comes up, glad to do it. Again, it is fun, but I just stay engaged and I go to other people's Meetups. I have my own Meetup. I started a second one, we're kind of in lockdown right now maybe until July or August but, yeah, just stay active constantly.

[0:22:05.9] WS: How do you stand out amongst all of the other operators in the industry?

[0:22:09.8] BP: Well again, I think I put my tenants – well, what I really do is I put my employees first, right? Again, I have a management company so maybe it is a little unfair in that respect, but I put my employees first. They are more important than anybody including my residents, right? It a Herb Kelleher thing, from Southwest Airlines, make them the most important people in my world and then they will take that down to the residents.

So that is the biggest thing right there. We kill ourselves to help them with a balanced lifestyle. We have floating days off. Basically what we've done, and we are already grow from here, but right now anybody that works for us they are all full-time, they all have full benefits, but you get two days off a week. Once a month everybody gets a floating day off and they can take it whenever they choose, right? So if I wake up this morning and I think, "I am having a bad hair day, I don't want to go to work." Call your boss. As long as nobody else has claimed that day so to speak and there is no big major project going on, then just don't go to work.

So that is an extra 12 days off that somebody gets. Now if you don't use it that month, you don't get to carry it forward and bank these thing but again, I just gave you another two and a half

weeks off on top of – there are already two to four weeks of vacation time. So we're working toward a four day work week.

And COVID-19 is showing us that, you know, that's very doable. So again, we are doing a lot of things a lot of people would think, "You know that's ridiculous. No, you can't do that. You can't justify" – yes I can, because people want to work for us. They don't want to leave us because they know we have their back and we're always in this looking out for them.

[0:23:46.0] WS: What's the number one thing that's contributed to your success?

[0:23:49.1] BP: I honestly think it's the willingness to give back and help anybody with anything. I will help anybody. I had a guy talk to me one day on a conference call. I didn't know he was recording me at the time but he was. He said, "Bruce look, you just gave me 35 minutes of your time," or 25 whatever it was. "Yeah," I said, "You wanted to have a conversation, I am glad I had a conversation." "Well, you just helped me with all kinds of stuff. You gave me actionable ideas and for nothing. Why do you do that?"

It's like, "Because if I give to you it doesn't take from me. I feel it makes me stronger and better," because eventually, somebody is going to have a question, like, who do you know for this? Bruce can probably help you with that. So it is the whole karma thing. I am always trying to help other people. Then, selfishly, I want to help as many people as I can have the life that I have because the more people that have the life that I have, the more cool people I get to run around and play with.

I don't have to go to work 40 to 60 hours a week and punch a timecard and sit on a cubicle all day. I want more people to have that same lifestyle. So when we go to park city for one or two months and every summer I can bring other friends along with me. So that's it. I want to help everybody I can and not ask anything in return.

[0:24:58.1] WS: Awesome. I usually always ask how people like to give back and I think you answered that very well. If there is anything you'd like to add to that, please do, but also tell people how they can get in touch with you and learn more about you and your book.

[0:25:09.0] BP: So apt-guy.com. The landing page will be all about the book. It will give you some insight into what it's really about. Again, it's just pulling back the curtain on what syndication really is and all the steps involved and if you want to do it after you read the book great. If you don't, that's good too because maybe I saved you from making a \$10 - \$20,000 mistake. So the website is a good one and then Instagram and LinkedIn, just look for apt.guy or The Apartment Guy.

[END OF INTERVIEW]

[0:25:37.3] 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]

[0:26:17.8] 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.

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