EPISODE 691

[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 Chris Larsen. Thanks for being on the show, Chris.

[0:00:32.1] CL: Whitney, I'm excited to be here. Thanks for the opportunity.

[0:00:35.5] WS: Yeah, honored to have you on the show, looking forward to getting to know you a little better and Chris is the founder and managing partner of Next-Level Income. Chris has been investing in and managing real estate for over 20 years. While still a college student, he bought his first rental property at age 21. From there, Christ expanded into development, private lending, buying distressed debt, as well as commercial offices and ultimately syndicating multifamily properties.

He began syndicating deals in 2016, raised more than 15 million dollars and been actively involved in over 150 million dollars of real estate acquisitions. Chris is passionate about helping investors become financially independent.

So welcome to the show Chris, grateful again to have you. Give us a little more about who you are, your business, what you all are focused on and let's dive into your super power.

[0:01:24.3] CL: Yeah, thanks, Whitney. You know, that was a great intro and you know, I think really aligns well with what you and Life Bridge Capital does as well. What I'm focused on now is hoping to give education access to investors to the multifamily space, help them achieve financial independence because I really believe that if you have true independence, you can focus on what you're most passionate about in your life.

[0:01:45.5] WS: Tell me a little more about how you're helping people become financial independent through Next-Level Income?

[0:01:51.1] CL: Yeah, we started Next-Level income about two years ago with the podcast and you know, we were – like you mentioned, the intro we've been syndicating deals really we started about five years ago, kind of started the process, we officially closed our first deal on 2016.

But along the way, we'd have people reach out to us that said, "Hey, I'd love to do what you do or get to the point where you are or just get to the point where I can invest in one of your deals. But I'm not there yet and what would you recommend?" I was writing emails, on a weekly basis, sometimes a daily basis Whitney.

My partner Caleb Welborn who started the show with me said, "Hey, we should start a podcast," and I thought about it and I thought, you know what? That's a great idea, can help us curate information so that we can get the word out to more people. Really, the first mission of what we do at Next-Level income is education. We have a terrific blog, podcast, wrote a book that came out, if you're listening and anything resonates where you want to learn a little bit more about my background, you can check out the book at nextlevelincom.com, click on the book link and I'll send you one for free.

And then the second piece of what we do is we actually provide opportunities for financial independence. Whether it's introductions to professionals like tax strategists or opportunities to invest in deals. You know, very much like what you guys do.

[0:03:05.2] WS: Awesome. I know your super power and what we discussed was just your ability to look into the future, see trends and what's going to happen and I feel like obviously, with everything going on right now, it's what everybody's wondering, right? What's the next three months hold, six months hold, year, you know, what does that look like and you being an operator and very experienced, just looking forward to how you do that. What you see coming, obviously and how you're taking that data and what you're doing with it.

Would you just get us started a little bit on maybe your thought process behind gathering that data and just trends that you see happening?

[0:03:38.5] CL: Yeah, Whitney, like we talked about, I went to school right down the road from you, Virginia Tech, I was an engineering student, I got my PE, I got my professional engineer, I passed the professional engineering test, I never actually became an engineer, I went into the medical device space. And the reason I went into the medical device space is because when I looked at the demographic trends, this is going back about 20 years, I knew that the Baby Boomers were going to need more surgery and you could predict that.

I read a book by Harry S. Dent and he talked about demographics, I started to read into that and some people think Harry's a little crazy, I think he's very entertaining but his demographic data in my opinion is sound. You can follow long term trends, I don't follow short term trends when it comes to the stock market. I like to follow big long term like title shifts as I like to call them.

Based upon those trends, I went into the medical device industry, I ultimately moved to north Carolina from the Washington DC area with my wife because we felt that the southeast was going to be one of these growing areas and as I talk about in my book, when I was looking at entering the multifamily space, what I found was the same demographic trends that I was following and not just the Baby Boomers but also the millennial generation was really going to support this renter generation, really from about 2010 to not just 2030 but even into the 2040s for quite a long period of time.

You know, assimilating that information, I don't really think it's a super power, its 'like you're looking into a crystal ball but it's really like a magic eight ball where the information just bubbles up. But we got into that space, I started investing the space eight years ago in 2013. And yeah, I'm always looking at data, I read constantly every morning, every evening, throughout the day and I kind of follow Warren Buffett's rule where I think he says, he reads something like six hours a day.

I really think if you look at the information, you follow the trends, that allows you to formulate a picture of the future and like I said, you can bet on the tides, you might not be able to bet on the size of the waves every day but you can bet on those tidal shifts and that's what I did to move into the multifamily space.

[0:05:35.8] WS: Nice. Yeah, reading six hours a day. I thought I never enjoyed reading growing up, that was such a mistake. Now, it's like, I can't get enough, right? You know, it's like how much time do I have every day to spend reading and just educating and you know, just gaining knowledge but do you read six hours a day?

[0:05:53.2] CL: No, not quite, I read every morning, probably like 30 minutes to an hour. If I'm traveling, I listen to podcasts and you know, I try to read every night for about 30 minutes. It's probably about two hours a day.

[0:06:02.7] WS: Yeah, where are you finding things that you're focusing on your reading time on so you can understand better what's happening in the future and how you're seeing these things?

[0:06:11.6] CL: Yeah, I read not just insights when it comes to the industry. Typical industry websites and if you look at my LinkedIn profile, my Facebook, I'm always posting any sort of article that I find is informative or is really going to dive into that, I just try to share that with everybody on a regular basis but then, I'm also reading like I just read a book called *Lifespan* by David Sinclair and it's interesting because it talks about how aging is a disease, not necessarily something that is inevitable.

Something that may be able to prevent. When you think about that, you realize that life may extend non-linearly, you know, we've been kind of incrementally increasing our life span, what is that going to do to the future, that's something I read books and stuff on those topics. I follow different weekly blogs, to file kind of the bigger trends and then the industry data, for instance, what's going on in local markets. Like I was reading this morning, Raleigh, North Carolina, one of the fastest growing markets with some certain things.

It's like, "Okay, you read that, that's important to the decisions we make today but the bigger picture items, those are things that are going to be important five, 10, 20 years from now."

[0:07:17.7] WS: Can you give us a couple of examples of that?

[0:07:20.0] CL: Well, like I was saying, I think if you look and you follow that trend and say, "Well, how are people's lives going to change and I talk about this with investors. I say, well, if you, instead of shifted from retirement, to the idea of financial independence and following what you want to do," so the people that I coach and mentor, I ask them, the first thing we do, I say, "I want to see your life vision."

I ask them, "How long do you think you're going to live and then well, if you lived another 20 years or 50 years, how would that affect what you did?" It's really profound, I think if you said "Hey, I'm going to live till 80," somebody came to you and said, "Hey Whitney, you're actually going to live to 160." You would probably change some things that you're doing with your life.

You might take advantage of some things now, you might change and do some things bigger so personally, that's affected me instead of saying, "Okay, I'm going to retire at 40 and just have this pot of money that I'm going to live off of," it's changed. I want to affect and do more things for me personally.

And then, when it comes to markets, if we kind of dive into today, the here and now, we invest in the South East, we focus on markets, they're outperforming the country and I know you can have a very good understanding of this and you know, your listeners understand exactly what I'm talking about, following the demographic trends, coming out of the pandemic.

How are we going to see the trends? People moving from New York City we're seeing it here locally in Asheville. Properties are just flying off the market, is it going to affect the market, is it going to affect Raleigh, is it going to affect Charlotte, is it going to affect Atlanta? Markets in Texas, Jacksonville, Florida, what markets are going to have outsized benefits and what markets are going to hurt.

Are you looking at properties that are going to cater more towards lower income or properties that are a little bit higher up the food chain and have a higher median income? I think that the ones with lower income maybe hurt a little bit more in your term so that may affect our purchasing and our acquisitions over the next six to 18 months.

[0:09:11.0] WS: Can we dig into that right there? Just a little bit, you know, just like you talked about markets that are going to benefit from this or markets that are going to be hurt. I know the listeners are like, “Okay, how do I know that, how is he figuring that out?” What are you looking at there specifically, what’s giving you that information, what’s important for us to know?

[0:09:27.3] CL: You know, whether, again, you can check out like on my LinkedIn profile, I share articles on a daily basis, just look me up, Chris Larsen on LinkedIn, you can check out some of these recent articles. But we can see the trend of people moving from high density areas of living like San Francisco, LA, New York. And I think that local politics play a part of this as well. If you look at some of this areas where they’re talking about potentially defunding police and I don’t want to get political but if you're a high income earner and you're living in a city and you’re in close proximity to people that cost a lot, your taxes are high and then you feel like safety may go down. I, as a parent, I’m going to look at those things and say, “Hey, is this something I’m comfortable with?’ And the data seems to suggest that those individuals are looking to move more towards the suburbs so that’s number one.

We’re seeing exodus from urban environments to sub-urban environments and we’ve seen this for the past 10 years, number two, we’re seeing an exodus from high tax states, typically in the North East, the West. I mean, like California, like the west coast to areas like Denver Colorado, like Texas if you're in the west coast, maybe Oregon, also from the northeast, you’re seeing an exodus from the North East to the southeast and also Texas.

I like to verify these trends by looking at the Van Lines annual report and that just follows where people are moving. You have a net in and out migration of cities and states and you contract that on a regular basis. That’s something you can do from a mid-level. We’re talking about big trends, we’re talking about state to state trends and city to city trends.

And then if you look at specific properties, you say, "Okay, what are people preferring now if they're going to be working more remotely or they want to have a little more space?" People are doing things – Like my wife is an architect. People are modeling their homes, they're adding home offices, they're adding like outdoor kitchens, more outdoor space. In my opinion, I think this pandemic, it's going to subside but it's going to change people's psyche.

They're going to look for these things so if we're buying a property, maybe we want to be in an area like Charlotte or Raleigh that's going to have more of a suburban setting and then maybe, instead of a high rise, we want to look at something that is a garden style two to four stories, that has a lot of outdoor area and then we want to make sure that we have amenities like high speed internet.

You know, if you're a professional, Whitney, and you want to be working from home, you're going to place a higher value on that. Kind of going again from high level to property level and then amenity level, when you talk about, how do you provide value and ultimately generate income in the property, something that a couple of years ago might have not been as valuable, you know, high speed internet, home office, maybe outdoor space is now going to command a premium and that's going to help us make the decisions on the properties that we help look to target.

[0:12:18.8] WS: No doubt. I appreciate that, that's some great information. But you know, how has that changed your outlook on the markets you are personally looking at, say, eight months ago, maybe you had these three markets in mind, you're really focused on but now, has that changed to something else?

[0:12:36.1] CL: Our large, like our macro view of the markets hasn't changed significantly, Whitney. I've been focused on the South East and I would include the Carolinas, Atlanta or Georgia, Florida and Texas and all of that. I think there's other, like Phoenix, Denver, there's some other great markets, I know you operate in Colorado which I'm' a huge fan of that state. My wife went to school there and spent a lot of time out there but that has not changed.

What has changed is we are looking at a little bit lighter value-add property, what I mean by that is let's say you buy a property that was built in 1975, 1980. That may take say, $10,000 worth of work and it might take a couple of years to really execute on that value-add strategy and you may have a lower income or lower average income resident in that property that maybe disproportionately affected by some of the stuff that has happened here during the COVID crisis versus a property that maybe it's built in the early 2000s.

On the last acquisition we made, it came online in 2014 and it had a higher median income so almost $90,000 median income in the local area. So that property in our opinion is going to be more stable than a property that has say a $45,000 median income. Also, it doesn't require as much work in terms of how much money we are putting into that property on an immediate basis. It is a stable property already that we can do things like add the high-speed internet and add operational efficiencies. Now what I think is the converse to that is that you may have a little bit less immediate upside in a property like that.

So, you are trading some of that upside for the immediate security but I think if you jump into a value-add property with a low average income resident base, I think there is little more immediate to permanent risk there. So, I still think that those properties are going to perform over the medium or long term but you have to account for the risk that you are taking on the uncertainty with everything that is happening right now with the economy so you have to shake out.

[0:14:33.9] WS: Is your group and you ready to buy right now or is that something that you're like, "Well you know we are going to wait" I mean it is all over the board. Some groups are like, "Nope, we are just crazy to buy anything right now, you know we don't know what's going to happen" and then other groups are like, "No we are ready to buy. We're all in." Where do you all sit on that?

[0:14:51.5] CL: It is probably moderate a little bit. I am kind of the middle of that Whitney but what I would say is that and I have said this to all of our investors, they call and they are concerned and I think 2020 is not going to be a great year for multifamily. I mean it is going to have a hit on the ability to move income. There is challenges, there is additional costs, of course that is going to have an effect. So, in my opinion this isn't going to be the best year that we have seen in the past decade for multifamily.

With that being said, if you look at the fundamentals, I don't think the fundamentals have changed and what I mean by that and I talk about this in my book, we need almost four million units this decade to keep up with demand. Four million units. I just read an article this morning and it was talking about how single-family housing demand is outstripping supply because people, they're trying to move into single-family homes. They are trying to buy single-family homes.

But millennials, they're still saddled with student debt. They are getting hit by the unemployment that's occurring right now, the increase of unemployment. So, they are going to have to rent longer. What does that mean? It might not be good for Q3 revenue for a property but it is going to be good for 2022 demand that is going to come out. And if you cater to the right demographics, you know you can add value to those residents that you are catering to.

So, the ultimate question is are we buying right now? The answer is yes. If we find a deal that makes sense that meets our criteria, we certainly will pull the trigger. We've made a lot offers over the last three months since all of this started. We haven't had one that we have been able to see eye-to-eye on yet but we're very close on a couple. So, we're confident that we'll have something here very shortly.

[0:16:26.4] WS: Has anything changed in your underwriting since say, eight months ago to now?

[0:16:32.1] CL: Absolutely, so the first off, the income increases, the net rent increases that we have predicted. You know you might say, "Hey, we're going to get 4% this year," when we're underwriting, we're assuming typically flat income increase or rent increase for the immediate future for the first year for instance. So that is the significant difference. Cost, you know if you look at some of the incremental cost associated with COVID-19 that is something that we underwrite into that.

Some of the amenities, you look and say, "Oh we are going to add a gym this year that is going to add value" that is probably not going to add a lot of value this year. So, you are looking at underwriting different amenities. So, like I said, we may be adding high speed internet versus doing an outfit on a gym where we may be adding an outdoor space versus doing a gym for instance. You know you can typically kind of cause shift with respect to that.

But the big thing is I think if you are underwriting a deal or you are looking at a deal, look at how the operator has underwritten rent increases for the immediate future and I would also factor in where the current rents are and what the medium income is for your resident base. I think that is going to both have an impact and you want to make sure your operator that you're working with is very conservative on my opinion on those metrics.

[0:17:46.1] WS: Nice. I appreciate that Chris. You know unfortunately we're running low on time but just a few final questions, what's been the hardest part of this syndication journey or process for you Chris to get to where you're at now? I know you came from a W2 career that obviously took a lot of work and time to get into and to be good at but to where you're at now, what's been the hardest part?

[0:18:04.6] CL: I talk about in my book being an athlete, being a competitive cyclist for about two decades and it is very similar. You know you go and you maybe training for an event in September like we are now and you start training in March. So, for six months you are just pounding away and pounding away. Your muscles hurt and you are having to eat clean, you're trying to lose weight, you are making sacrifices and you don't see the benefit and then you get into that race six months later and things don't go right.

You have equipment that fails or you get a – or somebody accidents happens and that big event that you thought was going to be your event of the year is not and you have to change. So it is very similar. I've had partnership, I've had deals that haven't worked out. You worked a lot of months on them like three, six months it doesn't happen and you have to say, "Okay, that outcome that I had my eyes set on didn't occur," and you have to take a step back and say, "Okay that's all right."

You are always making progress and moving forward and what's come out of those events like a failed partnership for instance, you have other relationships that come out. Things that you learn from, things that make you better and ultimately end up benefiting your business in the long run. So, I mean I could list a dozen different things that we have experienced over the last five or six years but I would say, just the process of focusing or the focus of being on the process versus the outcome is the most important thing that I learned.

[0:19:25.5] WS: Anything else you would like to add to preparing for a downturn? I know we talked about some changes in your underwriting but anything else as far as how you would advise someone to be prepared for another downturn or things that you do?

[0:19:37.4] CL: Yeah, I think there is two parts to that, Whitney. I think from a personal perspective and then a business perspective. So, from a personal perspective, you know I think making sure you have adequate reserves. Six to 12 months in case something happens. If you are listening and you're concerned about your career like that is very important, have something. I talk about how my wife and I use infinite banking and we have information on our website under the banking link.

To create that store house of wealth and some liquidity in case we need it and then again, if you go and you are looking at a deal and you say, "What are the reserves like?" you want to make sure that you underwrite for more conservative income but you also want to potentially underwrite for more conservative reserves and I think we know that lenders are also taking a hard look at that. This isn't a secret necessarily that I am revealing but I think you can apply it both on your personal life as well as in your business too.

[0:20:26.1] WS: It is not something that most people are doing though.

[0:20:28.5] CL: It is a challenge and you know if you look at the fact that you are watching the stock market drops and the it goes up 50% you say, "Well I could shove my money in the stock market and make 50%." You always got to be cognizant of you look at the cash on hand of some of the wealthiest individuals and companies out there like the Buffett's like the Amazon's like Metronic I worked for them for 10 years how much cash they have on hand. It is for a reason that they are doing that.

[0:20:50.8] WS: What is a way you have recently improved your business that we could apply to our business?

[0:20:54.3] CL: Yeah, so I think I mentioned Caleb who has been my teammate on the marketing side for a lot of years and I am not a millennial. I am a Gen X kind of guy. I am 42 years old and I have to really learn about how to use social media for instance, how to use video and how to use different methods. Like I wrote a book I thought that was pretty revolutionary but then I come to find out you know there is this whole world of podcasting and I think if you are growing a business right now don't underestimate those trends that we are seeing in new generations like the millennials, like my kids that are eight and 10, you understand what I am talking about Whitney, you have young children.

What are they doing? How are they assimilating information? I think you should if you have a business look to the next generation. So, we are trying to cater towards those millennials, help educate them. They may not be investors today or somebody actively working with but we want to make sure that we're building an audience and we're providing value to those individuals and we hope that that will continue to help our business grow in the future, even though we may not have a direct line of site on how that is going to happen.

[0:21:56.0] WS: What is your best source for meeting new investors now?

[0:21:58.8] CL: Ooh, I have networked a tremendous amount with podcasts. So, I think that thought leaders like yourself have podcasts that's definitely an advantage. What I have been really focused on though is locally trying to provide value to investors. So, I look here locally in Asheville or North Carolina. Actually, this evening, we're recording a month or so ahead of time but this evening I am doing a webinar for a student group at a college on real estate investing and doing that.

So again, I am kind looking a lot of years out but I think really if you give back and you provide value even if there is no immediate monetary return, I really think that those things are going to create opportunities for investors in the future. That is something that I really enjoy as well.

[0:22:40.7] WS: What's the number one thing that's contributed to your success?

[0:22:43.4] CL: This might not be a very popular response but I would probably say the death of my father and the reason I say that and there is data to back this up, it gave me a finite value of time. And what I mean by that is I think when we are young, we see time as it's not as valuable because we think it is going to go on forever but when you are young and you lose somebody at a young age and you say, “Well, wait a minute, life can be over tomorrow” or it could be over at 18 or over at 41.

I think that it compressed the way my brain looked at time and it motivated me to get more done and achieve more and not leave any time on the table and I often talk about how when I lost my friend Chris, it drove me to basically live two lives to respect the life that he didn’t get to live and that is part of the reason I quit cycling initially and kind of gave up my dream to become a professional cyclist. So, I wouldn’t wish that on anybody but I think for me personally that has really given me the drive.

And it took me a lot of years to realize that. I probably just realize that in the past few years about why I’ve been so motivated and so driven but my father died at 41 and I just passed my first birthday a year ago and it was something I thought a lot about and I truly think that that affected my drive for what you would call success.

[0:24:01.7] WS: Wow, thanks for sharing that and how do you like to give back?

[0:24:05.0] CL: Yeah, I mentioned earlier Whitney, if you are listening and you say, “Hey, I’d like to get where you are, where Whitney is,” I love to help mentor people. I love to share my story. I mentioned that if you are listening that you can get our book at the book link at nextlevelincom.com and really just allowing people to realize that financial success is achievable no matter where you are or where you started. I didn’t start with a lot of money.

My first investment, I had less than $3,000, bought my first house, rental home. So, if you are listening and you say, “Oh, I can’t even conceptualize buying 180-unit apartment complex like Whitney did,” you can start small. It is a get rich slow game, you can make it happen.

[0:24:45.3] WS: Chris, I am so grateful for your time and the way you give back as well and just helping us think through like what is happening right now, the trends that we are seeing and how you analyze that data and where you get it from, very grateful for that. You are definitely a leader in this industry. Tell the listeners how they can get in touch with you and learn more about you?

[0:25:01.4] CL: Yeah, thank you, Whitney and I am grateful for the opportunity as well. I think you do a tremendous job. You're somebody I look to with the success of your podcast and try to emulate but you can check us out at nextlevelincome.com. If you are interested in getting in touch with me, have any questions, anything that I can help you out with, chris@nextlevelincome.com and please, check out a free copy of our book at the book link put your address in and I'll send you a copy.

[0:25:23.6] WS: Awesome, that's a wrap Chris. Thank you very much.

[END OF INTERVIEW]

[0:25:27.6] 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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