

EPISODE 696

[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]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Rob Anderson. Thanks for being on the show, Rob.

[00:00:31] RA: Sure.

[00:00:32] WS: Rob oversees operations and direction of BV Capital, which is a private veteran-owned real estate private equity firm located in Dallas, Texas. Rob's core responsibilities and oversight duties include sitting on their due diligence committee, structuring investment deals in real estate, managing the capital raise process — which is a full-time job alone, no doubt. Which is often through most syndicating, managing investor relations and communications and is the principal of BV Securities, their in-house broker dealer.

Rob lives in Dallas, married with three busy daughters and enjoys a good golf course when possible. Rob, thank you again for your time and just for being willing to share your expertise. Give us a little more about BV Capital, what your focus is and let's jump into your superpower.

[00:01:18] RA: Sure. We're a commercial real estate shop. I mean, growing into more private equity than development, it's funny how that works. We've done a ton of multifamily. We're primarily the State of Texas. We've left the state a few times, but you know, real estate is location, so stay with what you know. We've done a lot of multifamily. We've done some office.

It's a medical office. We own our own office building. During the pandemic, we've actually gone into the office. Don't tell anybody, even though it's on this podcast now.

We've got a mixed-use development. We've got an industrial triple net. I mean, we've done quite a few things, either ourselves, or through what we call 'friends of the firm.' We have our own general contractor, so we do ground-up construction, as well as our own value-add deals. Quite a few different things there, Whitney.

[00:02:01] WS: Nice, nice. Well, something that stood out to me, also, just in your bio too is that in-house broker dealer. I know that's a term that a lot of people in our industry are learning more about all of a sudden, just because of the capital raised process that many operators have been taking. And just trying to ensure we do this as legal as we possibly can. Just no gray area. Could you just tell us a little bit more what that means? For the listener that's thinking, "Oh, wait a minute. What in the world's a broker dealer?" Just what is that and why is that important?

[00:02:33] RA: There's two ways to raise capital legally, either as an issuer, you like that, right? Either as an issuer, or, which is what most of us do, or through a licensed advisor with a Series 7 Financial Securities License. You either go outside the house, or you do it inside the house. We set out to acquire a broker dealer about three years ago. Gosh, Whitney, it took a year and a half to get this thing locked down. And it was dormant, it was clean, but it's FINRA and that means it's government. Nothing happens fast. If any of you guys have done a HUD loan, you know what I'm talking about.

It took a while, but we really just — we wanted to open up that new avenue, as far as we've all syndicated on direct and we've got a bunch of individual investors. I'm a little off-track with your question there, but the real reason was, as many of you know, if you go to institutions, or family offices, or really deep pockets, they're getting a little bit more choosy with their money. They want more of your deal. They were wanting more and more of our promote and more and more of our deal, and we were left with just a tiny little bit.

This became the next alternative for us. I come from the securities background and have always called on financial advisors. Instead of selling mutual funds, we're now selling our investments in the Reg-D world.

[00:03:47] WS: You can do that now, because you have the broker-dealer license.

[00:03:50] RA: Correct.

[00:03:51] WS: Is that right? Yes. Yes. Just wanting to clarify some of that, because that's — I don't know many people in the business who do have a broker dealer license, and so it's interesting. It's not easy to get as you talked about. Tell me though, any other benefits that you didn't talk about there, just by having that license? I'd love to get in just how you grew into that broker dealer security side in the business?

[00:04:11] RA: It's a little bit of a pain. Let me not paint this with too much rose-colored glass. I'm a Chief Compliance Officer. I'm a Financial Operations Officer. I've got overhead. I've been in FINRA's office, which I never wanted to be. When I'm talking to an investor, I'm able to tell them that we are a broker dealer and we have FINRA oversight and that holds me to a higher standard than possibly somebody else.

That goes a long way when you're just talking with folks, because there's been issues out right now and there's a — many of you guys know, there's a big crowdfunding site that the SEC is looking into right now and there's all kinds of stuff that's going on. Anything that you can. When you're syndicating and raising money, I'm sure you'll agree with me, this is a trust business. Anything that you can do to solidify and grow your trust in every little action you do, and we felt this was a great way to do that very thing. Plus, we wanted to get to the next level and we wanted to distribute our products through financial advisors and this is the only way you can do that.

[00:05:09] WS: Okay. Just to speak to that just for a second too, and I know we said it a minute ago, but I wanted to clarify, because I don't think anybody's talked about this on the show up to this point. Because you have that license, you can now send your deal out to — I mean, the investment advisor at Edward Jones, or is that — I mean, is that correct?

[00:05:27] RA: You could. Now Jones is a good example, because there are 8,000, 9,000 advisors. But yeah, you absolutely could. I have a managing broker dealer agreement, if I'm

using a third-party sponsor, like a friend of the firm, shall we say, in which they contract me to raise money for them. If I'm raising for my own deal, I obviously don't need that, then I just need a dealer agreement. I go to a broker dealer, or an RIA.

We focus on the shops that will have anywhere from 10 to a 100 advisors. If you go to a — you mentioned Edward Jones, or Raymond James, or Merrill Lynch, or somebody, it's just too big. Now they don't want to talk to you, unless you're a Kenneth Fitzgerald or Blackstone, which is fine. Let them do that stuff. But you can do very, very well. There's — a there's a change in the industry right now. I don't know if you're familiar, but the typical financial advisor that would work for a Merrill Lynch, Morgan Stanley, Edward Jones, is actually moving over to more of an independent type channel, which we call the registered investment advisor.

Not to bore you, but it switches acts. Financial regulatory acts. What happens is they're held to a fiduciary standard and they don't get paid commission. They only get paid fees. Those folks are no longer under FINRA. Their watchdog is the SEC. Those folks are much smaller, more nimble, more apt to do real estate deals. And they like real estate deals. It helps them differentiate to their clients. They understand it more. The beauty of this, you go find a new investor, you found one investor, you get an RIA to work with you, you've got that RIA's entire book of business that could potentially invest with you.

[00:06:57] WS: Nice. Well, tell me how does that work then? You get a deal. Could you go through that process briefly? Just — you get a deal and you're working with a financial advisor like that. How are you presenting the deal to them and then are they presenting it to their network, or they already have people that are looking for that type of deal? How does that work?

[00:07:13] RA: Yeah. We've actually had to hire salespeople to do this and they're called wholesalers. Don't get that confused when you — like the wholesaling in the real estate world, where you're bringing a deal to somebody and flipping. It's a little different. What they're doing is they're calling on financial advisors specifically. They are walking in there and they're showing them our deals and convincing them of the value and how to position it. Where it works, where it doesn't work, where it fits, how it would fit in an overall asset allocation for somebodyB because that's how a lot of people forget. Well, this is really an investment.

I think so many investors forget like, what is the purpose of the investment? What was I trying to accomplish? Do I need income? Do I need growth? Am I trying to save for retirement? It's just as an IRA vehicle, etc.? Our folks and a lot of times myself, will sit down with that advisor and help them figure out where in their book of business what we're doing makes sense for their clients. It's a little bit more in-depth conversation, but once you get there, then all you do is support that advisor and that advisor once they understand, they will generally allocate it across their book of business to a certain degree.

[00:08:13] WS: Nice. Well, how does that work as far as when you have different deals that come up, or do you have an open fund that they're continually investing in?

[00:08:20] RA: Well, you've got to be on the custodians. Our favorite is TD Ameritrade. Our current deal is on TD Ameritrade. They're going to be swallowed up by Schwab here soon, so we'll get there by default. Fidelity's another big one. There's several others out there. As long as the advisor that you're talking to can access your deal through a custodian, then you're good.

Now you have to have audited financials. That's an expense. There's an expense to this. If you're going to go down this road, you really want to make sure that your deal is big enough to justify the expense. If you're just trying to raise 3 million dollars, you do not need to do this. I mean, we've got deals in 25, 50, a 100 million-dollar raises that we're doing, either for ourselves or other people, whether they're funds or portfolios. Those size-dollars make sense to go to all this effort.

[00:09:04] WS: On that note, who's that person that you think should be considering becoming a broker dealer, or getting that license? I know the trouble it takes to get the license and maybe when you're able to scale to that level, maybe you can just speak to a couple qualities that okay, this person should really be considering going down this avenue, or it's never for this person, other than what you just said?

[00:09:23] RA: Well, if you're doing it for yourself, get your Series 65 and just become an RIA. You can register yourself as an RIA in your specific state. Then you now are a Registered Investment Advisor for yourself. That gives you the credibility. If you go down the broker dealer level, that's a whole another game. Keep in mind, the reason we did it is we wanted to distribute

our products and be able to create products for the financial advisor community to then distribute to their clients.

If you don't ever want to do that, then you don't need to go down the broker dealer level. Now what you can do is get your license and then somebody like us, or somebody else, or somebody near you can hold your license, because if you get your Series 7, for example, you have to have a broker dealer that holds it for you. You're just a registered rep at that point, but that does allow you to do a lot.

Now if you're an issuer, you don't need that, because you can raise capital yourself as an issuer. However, if you're trying to hire people and they are going to solicit and let's say, they're not really part of the issuer, those folks have to be licensed and they have to be in a broker-dealer at some point.

[00:10:28] WS: Okay. I know you have a unique way that you like to explain real estate investments to investors and I thought we could talk about that a little bit.

[00:10:37] RA: Well, it goes back to my point a second ago. What are we trying to accomplish? I think we lose sight of that in almost every area of our life right now. Yeah. We go down our path to something. I'll give you an example. I had a conversation with my investors yesterday. Great guy. I talked to him for about an hour. He wanted to discuss a REIT versus direct real estate investment. I said, "Sure, let's get into it." We start talking about it.

I said, "Well, hold up a second. What is this money for?" He goes, "What do you mean?" "Well, you're investing for a reason. What are you trying to accomplish here? Once you understand what you're trying to accomplish, then you marry those two investments together and you're more aligned with what your needs and goals are."

For example, if you've made money, you're trying not to lose money, you're just trying to get income, you don't need to invest in a ground-up construction deal. That's a pure growth vehicle.

If you are a risk taker and you want to go out there and go for it, you don't need to be investing in a triple net lease deal. You do need to be in the ground-up construction. It's more about Mr.

and Mrs. Advisor, or investor, what are we trying to accomplish? What are you looking for? Why did you reach out to me and why are you looking for a real estate deal? Let's understand what your goal is for that money, and then we'll talk about which of our projects, or maybe our friends' projects if we don't have one, would be a better fit for you. It's even better if you do turn them away, because the value that you have grown in their eyes, the trust, they'll come back to you for everything that you got going forward.

[00:11:58] WS: Such great advice right there, and not just being the quick salesman, or shoving stuff down their throat trying to sell them right away. But really caring about why they're investing. Definitely, definitely great advice. Maybe you can dig in on that a little bit, or just your all's normal operations, what you do on a daily basis and help to — just help the listener understand just how your operations differ from say, a typical syndicator.

[00:12:21] RA: Well, probably the biggest difference is all the compliance we have to deal with, with having a broker dealer. I had an hour-long conversation with my Chief Compliance Officer last night, for example. We're in the process of cutting a deal agreement with somebody to distribute our current deal, which is our triple net income deal. We've got to make sure that we talk about it correctly. We've got to make sure we don't —

Here's a great example. I can't use IRR, because that is a projection. There's no guarantee of that. I got to be careful on how I use the word multiple. I have to literally talk about the pref and how the waterfall, how the payout structure works. “And here's what we're doing and here's the idea.” So I've got to get reined in a little bit, so that there might be a potential downfall in how you say things, but I think if you look at deals, all these IRRs are based on a lot of assumptions. Folks like us pick them apart and say, “Okay. Well, how are they bringing that to you?” If they're looking at us versus something else. I guess that would be one difference.

The other thing is we're really trying to offer multiple solutions. We've got a multifamily fund. I know, Whitney, you've done a bunch of multifamily. Great area. We got into industrial, just because we wanted to safe play. This way, keep in mind when I'm talking to folks, “What are you trying to do? Are you trying to grow wealth, or preserve wealth?” There's two different sides to that. If they're saying they're trying to preserve wealth, there's no yield out there.

What I like to look at is, “What else, what are your other options? Do you go to the stock market? Do you go to the bond market? What do you do?” So our triple net industrial deal, that's a great alternative for the bond market, or if you got money sitting in cash, you're earning zero, because there's no yield out there. Where do you find yield? That might be a little bit different than some of the conversations you have a lot.

[00:14:04] WS: No doubt about it. Just in you doing this every day and raising money and a lot of people are working with investors, a lot of the listeners are doing the same. I thought you could probably provide just some good tips that you have for maybe the new operator, or new syndicator, just the capital raise process, or working with investors.

[00:14:20] RA: Sure. What I would say and just so everybody knows, I read *Rich Dad Poor Dad* 20 years ago and I've been here ever since. Done my own rental houses, flips, vacation properties. Now obviously, it's a 100% commercial, because you grow into it. I would say grow into it, number one. Number two, if you want to syndicate and you haven't, then go invest in a syndication. This is the best way to learn. Understand how the folks that do this day-in and day-out treat their investors, so when you have investors, you know how to treat them. You don't need to do a lot, grab the minimum out of your IRA and just experience that. That would be one thing I would say is if you haven't done that.

The other thing I would say is don't cut corners. There's a lot of legal stuff here. Pay the attorney. Make sure your PPMs and your subscription documents and all of that stuff is the way it needs to be. Don't skip filing your forms and your blue sky arrangements. And there's a lot of corners that people can cut, which is a quick way to really have a bunch of headaches down the road. Those would be the two things right off the bat.

Invest in somebody else's deal if you've never done it, so you understand what that's like, so when you have investors, you can speak to it and manage them correctly. I'd also say, really be careful about cutting those corners.

[00:15:30] WS: What's been the hardest part of this commercial real estate, or syndication journey for you?

[00:15:34] RA: COVID, frankly, which is probably true for everybody, right? It's just an education. Everything we do is Reg. D. You have to be an accredited investor. There's roughly 13, 14 million, give or take, million households that are accredited investors. And you got to realize, less than a 100,000 of them actually invested in one of these deals last year. It is a tiny, infinitesimal number. I think I made up a word there, but it is a really small amount. When you find the right person, you've got to explain this.

When I was doing mutual funds, or investments, or some of the other stuff I was doing in my past life, I didn't have to explain that. Everybody knew what that was. How this works, there's a lot of extra explanation. To my point earlier, if you take the time to sit down with somebody, not only do you have an investor, but hopefully, you've got a raving fan base that you're growing that will tell all their friends as well. That's really what we need in this industry.

[00:16:31] WS: That's right. Wow. Well, on that note, talking about COVID, but I ask a lot of operators, how do you prepare for a downturn, or how even moving forward, or how did COVID teach you to maybe do something different that you weren't doing before? Ultimately, how do you prepare for a downturn?

[00:16:46] RA: Well, what we did is — we didn't want to just stay in our lane, which I know a lot of people say stay in your lane, focus, do what you do, do what you do, do what you do. We've done a ton of multifamily and we branched out. We did some office. We did some industrial. This way, we had more ability to move around and that may be right or that may be wrong. We'll touch base in a year or two and answer that question for you.

I will say this, normally we do quarterly investor updates and sometimes we'll do a call. We have absolutely doubled our amount of communication right now. Instead of every 12 weeks, we are communicating every six weeks. I'm getting on the phone with people. I'm encouraging people in my office to get on the phone with people, talk to your folks, talk, talk, talk, talk. I've had so much positive experience from my investors that have said, "Most of my folks are leaving me out in the dark and I'm guessing and wondering how bad it is. With you, I at least understand the situation. I feel so much better. I feel so much more comfortable."

This is a trust business. Over-communicate today, during COVID is what I would tell you. That's probably my biggest takeaway, from just talking with our folks. When I say our folks, I'm talking about our investors, because that's what I do for a living.

[00:17:52] WS: Nice. Yeah, over-communicate. No doubt. Other than that, what's the way you've improved your business recently that we could apply to our business?

[00:18:00] RA: Refinance, man. I mean, we have a great opportunity with historic debt. I'll tell you, on the multifamily side — and every state is different. I'm in Texas. Most states put a moratorium on evictions. Tenants thought they didn't have to pay. We had to go door to door, physically knocking on the door. I mean, we had folks who decided to do it, but we literally went door to door knocking on them saying, "Just want to remind you, this is how it works."

I mean, a lot of extra elbow grease right now, right Whitney? I mean, there's so much extra work. You know what it's done, we have a better relationship with our tenants and we're not huge. We've got about 800 doors right now, because we like to sell stuff off. It's really helped. I mean, our collections are dropping. Our cash flows are going up. It's funny. It's been tough, but we've never known our tenant base as well as we do now.

[00:18:51] WS: Other than communication, which is extremely important and I hear it at the top of people's lists so often, because it is so important, what's a way that you stand out amongst other operators with your investors?

[00:19:04] RA: Webinars. We started doing webinars. We let them see us, no different than what we're doing right now. Historically, it's just here's a four or five-page write-up. Here's some financials. Maybe here's some pictures.

[00:19:16] WS: Is that about a specific property, or is that just like, you do it every so often about your operations, or the company? What's the content?

[00:19:22] RA: No. We are specific on our — a different deal. We've sold out of a lot of stuff. The main thing we have is our industrial deal and our multifamily fund. The industrial deal is —

it's a cakewalk, so there's not a whole lot to do there. Multifamily has been a little bit of a challenge, as I'm sure all my multifamily friends out there can attest.

We did a webinar. We wanted our investors that are around the country to physically see us, to speak to them and say, "Here's what we did. Here's what we're doing." I think there's comfort in that. A lot of us have said, thank you. I think it was an hour. We got a little long-winded there, but there's a lot to talk about right now. The feedback was, "Keep sending us the write-up, but thank you for doing the webinar, because it was live and they could ask questions right there." And we'd see the question come up on the screen and then we could just say, "Hey, Dan. That's a great question. Let me answer it," and you answer it. Dan feels just so much more engaged in the process. We have people's money. Well, I think we forget about that a lot of times. We have people's money here and sometimes it's harder.

[00:20:20] WS: A lot of it.

[00:20:21] RA: Exactly. Exactly. There's only so much you can do. Operate as well as you can. Talk as much as you can. I'd say, with the emergence of Zoom and webinars, take advantage of it. I know we're all Zoomed out. It gives you that comfort of my money's in good hands.

[00:20:39] WS: What's your best source for meeting new investors right now?

[00:20:42] RA: Well, I'm chasing the advisory channel myself. Yeah, that may not be as applicable to most people, but that's what we're doing.

[00:20:49] WS: Yeah. What's the number one thing that's contributed to your success?

[00:20:52] RA: Just never give up, man. Just never give up. I don't have any silver bullet. Every day is a new day. Just never give up. Here's the other thing, we're not selling cigarettes to kids. This is a good thing we're doing. We're providing a really awesome opportunity for people to grow their wealth, or protect their wealth in a way that the stock market doesn't do. I'm not saying sell out of the stock market at 100%. But from a diversification standpoint, real estate is a fantastic way to help people. I think we just need to remind ourselves of that every so often.

[00:21:22] WS: I appreciate that. Appreciate you bringing that up. Tell us — how do you like to give back?

[00:21:27] RA: We have a lot of folks that we give back to. I'm personally really passionate about an anti-trafficking group that I work with here in town. To me, that's the worst evil. I'll tell you one that's related to our business. Class-C Workforce Housing. We've partnered with several charities, so this is a company. What they'll do is a lot of Class-C is where the slum lord stereotypes come from, sadly. If you go in there and you roll up your sleeves and you take care of people, it's amazing what you can do.

If we have time, Whitney, I'll tell you a quick story. We bought a Class-C in Fort Worth, 70% occupied. The landlord just ran out of money. They just weren't taking care of people. They were just not fixing things. They weren't responding to it. It was bad and we see that a lot. We went in there. We took it over. In six months, we're over 90%, I think we're at 100% in, a year later. Occupancy with rent growth in COVID. It's amazing what will happen if you take care of people and you communicate, you fix their stuff, you talk to them, you get to know them.

We brought in charities. We brought in non-profits, tutored their kids. We brought the police in. What's interesting is once that your tenant base knows you care, they'll call you and say, "Hey, this unit right here, you got to get rid of them." That's what you want, right?

[00:22:47] WS: Yeah. For sure.

[00:22:48] RA: That's a really neat way that we've been able to do business, do business well and improve our community at the same time, because those folks, they deserve a nice place to live, irregardless of the price point. We've really enjoyed that aspect. I think we're going to do some more of that. It's been a really good experience for us.

[00:23:05] WS: That's a very unique way to give back. I love that, because it's in the industry as well. It's something you already do and know very well and you're touching so many people's lives all at one property there at one place. Thanks for sharing that, Rob. I hope we can all just remember that, because we're all — many of us even listening are in that same business and could have that in mind too as we're looking at properties and how we're helping tenants.

Rob, grateful for your time. Just grateful for you sharing about and just what you do really and what a broker dealer is and what that entails a little bit, because I know that's a — it's something that's coming up more and more and I'm hearing it more and more from different people in the industry just looking at going down that route. And whether that's for them or not. Just grateful for that and your time. Tell the listeners how they get in touch with you and learn more about you.

[00:23:50] RA: Sure. And if anybody's curious about what this is and is like, I'm happy to visit. If I can help somebody, then I'm happy to. Our website is bvcapitaltx.com. The 800 number is on there. It's 800-484-0073. You can email us. It's on there as well at bvcapitaltx.com. It's really the best way, because all of our contact information is on there. If you go on there and you send an email and you address it to me, I will get back to you. How about that?

[END OF INTERVIEW]

[00:24:20] 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.

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[OUTRO]

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