EPISODE 733

[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]

[0:00:24.2] WS: This is your daily real estate syndication show. I'm your host Whitney Sewell. Today, our guest is Brandon Bruckman. Thanks for being on the show, Brandon.

[0:00:32.6] BB: Thanks, Whitney for having me. It's good to be here.

[0:00:34.6] WS: During the show, we're going to explore options for real state investors in a 1031 exchange, how planning is critical for investors and how syndicators can help attract 1031 exchange capital. I know this is a topic that comes up often. The 1031 exchange, I get questions from investors often, almost weekly. "Is this possible? Can I do this? How do I initiate a 1030?" Or just, "What is that? Is that something I could benefit from?" Brandon is going to help us to better understand that today.

Just so even thinking about as an operator, being able to go out and find sellers who want to do a 1031 and not being able to bring a lot of capital to you or deal. If you're syndicating deals, you are in the capital raising business. It's such a big part of our business, and finding those investors, and networking, communicating with them. This is a great option to find another group of investors who can partner with you. But there's are specific ways that that has to be done legally, so they can get those tax benefits, so we're all protected and all those things.

Brandon, welcome to the show. Grateful to have you on. This is a topic that I know the listeners always wonder about, want to ensure just that they understand it so they know they're doing it correctly and how we even get started. Give us a little bit about your background, about why you're the expert in 1031 exchanges and let's dive into how a syndicator can use this model.

[0:01:59.1] BB: Yeah. In terms of background, a bit about me and the firm. Our firm is called Insight Real Estate Partners. We've been often doing this now for about two and a half years. We've spent three years prior to that just researching it. Our background really comes from the investing side of the world. Having myself maybe 15, 20 years ago, I shunned real estate, as silly as that sounds.

I spent six years working at a rather large hedge fund and our focus was on public markets and on things that are happening in the world from a macro perspective, and I found that fascinating. I start to push real estate aside. But fortunately for me, I ran into my partner and his family has a deep background in real estate. I've always had sort of this problem where operating real estate and what do we do when we're — frankly, we're getting a little bit older, in the case of his family and there are some health problems there as well. How do we think about stopping to operate, stop the operations in the real estate without paying that tax bill? Because the tax bill came to their family as quite a bit of surprise.

For some perspective, the tax bill was sort of talking about, is that only capital gains? I think that's the first thing that pops into people's head. Like, "Oh, man. I got to cap gains bill here." But you also have depreciation recapture, and any state tax as well is in that equation. In the particular example of my partner and his family, they're looking at a 40% plus tax bill that they weren't expecting. It's sort of mind-boggling to think about those numbers.

I think it leads investors to decisions they don't want to make. Either one, they don't sell and they're going to sit on this property until they die and get a step up and basis for their errors. That's one way. Swap until you drop is sort of the terminology that they use, but they're always managing property. The other way is, I think investors make some maybe poor purchase decisions all in the effort to avoid that tax. We'd like to take sort of a timeout and have investors really start to think about what is it that I want to do, when do I want to do this. Planning is so critical before you even get into the exchange process.

[0:04:01.1] WS: Planning, you said it right there. Planning is so critical. We're asking about how to do a 1031 exchange and if it fits for me years before we actually need it, right, and meeting people just like yourself. Let's talk about the operator a little bit and how they can even — I guess opening our minds a little bit as an operator, just that this is something we should be focusing on in finding sellers, finding people who are needing a 1031, needing to do a 1031 or could benefit from that. Help us with that a little bit.

As the operator, it can seem a little overwhelming to think about adding something like that or trying to learn this process and finding these people. How should we do that? How do we even find those people?

[0:04:40.1] BB: I'll take you through a little bit of background kind of how we got to start thinking about syndication as an option. We sort of rolled through this as a firm in thinking about an instrument called the Delaware Statutory Trust. That's a mouthful and I will refer to it as DST as we go. That's a more typical option for investors that are looking to get passive and to get out.

That is by the SEC of financial securities, so it fits well into our business where I go, “Okay. This makes sense.”

As we start to work our way through that market, those products are designed for one type of investor in mind, designed for a very conservative type of investor. Immediately, we had people coming to our door that were a little bit more let’s say sophisticated. We’re looking for a little bit different economics or different scenario. We started talking to syndicators about this a little bit. And frankly, our initial conversations, we got a lot of, “Hey, we can’t do that. We can’t do that. We can’t do that.”

The more that we dug into it and realized, yes, you can. The structure that we’ve been helping folks utilize is, referred to as tenant in common or TIC. The biggest thing and I want syndicators to think about the investors for a second. As they’re coming out of a 1031 exchange, they have to maintain ownership of that property in the same entity that they’re in. That is critical. You cannot change entities while we’re doing the 1031 exchange. I can’t go from one LLC to another. I can’t go from directly owning it being a partner and a syndication. Can’t do that. I have to be entity to entity.

The DST structure like I mentioned allows us to do that so as the tenant in common structure. I think that presents some different kind of challenges maybe for the syndicator. It’s a different setup. You are in essence partnering with somebody. A lot of initial phone calls will have a syndicator partner or the investor syndicator actually gained a no return. I want to be in this property with this person. You may have the majority of equity there or you may be in control making the decisions as a syndicator. But you also have someone that you’re partnered with on this transaction.

That’s a different element that I think the GP, LP structure in way to think about — a way syndicator would think about running their business is a bit different. But I think the upside as well though as we think about as — Whitney, we mentioned before the call, are willing to this election and feel they’re sitting on defense and thinking about 1031 exchange. It might get a little bit scarier for them staring at a policy that says, “I’m going to eliminate that.”

We anticipate as a firm potentially a lot of 1031 money flowing our way and into the space over the next 6, 8, 12 months if certain things happen politically. We anticipate that coming here. It’d be who is the syndicator to kind of look at that and say, “Hey, this could be really interesting.” On top of that, I think the most interesting relationships that we see here are folks that want to retire as the investor, that have been operators for 20 or 30 years. Syndicators and that investor, man, there is a personality fit there that’s phenomenal. While all the financials are great and the economics are great, the capital coming is great. You also may find an awesome partner coming out of these things.

[0:07:49.6] WS: That's some great information right there. I wanted to go back a little bit to the seller having to maintain ownership of that entity, and that entity then is coming into our syndication, really. It's that tenant in common. They're kind of this — there's an LP, there's GP, then there's this TIC or tenant in common out there and they can have a big role, right? They can have a lot of say in what happens, things like that.

Can you speak to just the — what the syndicator should be thinking about when we're having that conversation with that seller in determining – I mean, we're the operator here, right? We're still not going to call you about paint colors most likely. You're still passive in this deal. Just how to structure that or guide that conversation so we're prepared for the future of that relationship.

[0:08:36.2] BB: Yeah. That's a really good question. I think the syndicator should walk into that conversation with some very clear expectations of the way that they intend to run that property and how they intend to or not to involve that investor. That's absolutely critical. I'll kind of take this to where we see things go bad.

Things go bad when myself, my investor, who's is my client and the syndicator get on the call and we don't have clear expectations coming in to what people are going to do. I think the good thing that we add to the equation is, we can sort of play that sort of mediator in that transaction. We'll get to know syndicators and understand how they operate and then present them to investors and say, "Hey, this is how they kind of work."

Then, we're sort of playing matchmaker for lack of better terms, in trying to find people that sort of fit that criteria, right? I think most syndicators should take that mindset that they're in charge, and they're running the property, and you plan on doing what you plan on doing with that property and be very clear and direct about that. If we have a good match there, the investor will understand it, sign up to play in that game. If we don't, they won't.

It's having a clear set of expectations from the syndicator. It's your deal. From my seat in representing my investor, I want you to come to an initial meeting or call and say, "Here's what we do." That will help the investor make a decision about where they want to be. In other cases — and again this will depend on the size of the capital, right? We'll see syndicators make some concessions and work with that potential investor. It's finding a good fit, and if you can find that good fit, I think there's always middle ground that you can find in some sort of deal structure that makes sense.

[0:10:17.2] WS: Great. Another factor I know we have dealt with in other companies as well, it's like, there's a big cost to this on our side also, just getting that structure set up. It's many thousands more dollars on our side. I know many companies that do what we do just say, "Nope, we're just not going to do it." Even they're CPA or their tax person just said, "No." It's too time consuming, right? I mean, there's just to much to it to make it worthwhile, so many companies just say, "No, we're just not open to it."

Well, I've seen others say, "If somebody is bringing half a million dollars or a million dollars through a 1031 exchange, then we'll consider it." Can you speak to that? Just the cost side of it, when is it worthwhile? How much should somebody be bringing or even just to make it worthwhile for all the leg work that has to be done?

[0:11:06.3] BB: Yeah. I'll spin that a little bit from the investors point of view first. That's where we're spending the most time with and sort of what we tell people that will help. If investors are coming to us with equity sizes less than a million dollars, we usually don't recommend this option. It becomes however a bigger part of fit with that investor than it does about the equity. I mean, investors can come to us with $10 million worth of equity and this still may not be a good option for them. They need to understand what this is and how they need to participate. That's what the key point is. We'll spend time with them.

For example, I'll give you a real client example. A client we had just turned 50 and wanted to retire. He'd been running property for 25 years. He bought his first property when he was 19. This is what he does, but he was done. Little younger than usual that comes to us, but hey, good for him. He is an operator. That is what he does. This made a ton of sense to go to this syndication route. He understands it. It's very close to what he knows. It's almost exactly what he knows. Instead, he's allowing someone else to really run and manage that deal. That's a great fit.

We'll have other folks, another real client example, that sold a business. There's real estate inside of that business, totally 1031 exchange eligible will go down that route. They have absolutely no idea how to invest in real estate. This is not a good fit. The business ticket was bigger than our real estate operator, right? So equity size is factor here I think for us, but it is more about experience and how they come to that transaction.

To your point, it is definitely, it's more cumbersome to go this route, especially if the syndicator array has a business-built GP, LP. I have a structure, I'm running, I'm finding deals, I'm going. To stop and to do something a little bit different is more costly and time consuming. That's an absolutely a consideration there. The investors though on their side have to be a good personality and experience fit to get inside of this sort of —

[0:13:04.1] WS: Can you speak to the operator a little bit and the investor? I think this will help both, but I was just thinking through. When I have that conversation with an investor and he says, "You know, Whitney, we're going completely passive. We've had this portfolio. We just want out. It's time for me to retire." Whatever the reasoning may be. "We don't want to keep managing this, but we want to do a 1031 exchange."

Can you speak to maybe a couple of details that we should know to tell that investor as an operator, just to educate them a little bit? Then maybe include just the timing of selling that asset personally as an investor compared to when we need to invest in a syndication versus when that syndication closes. Does that matter? Some things like that.

[0:13:46.4] BB: Yeah. That's a really good point, because that is the trickiest part that we'll go through with investors and syndicators. We'll get to the point where we'll say, "Yes, I'm comfortable. Yes, I like this deal." And now it becomes a question of timing, and the timing gets a little bit tricky.

Let's talk about the 1031 exchange process first. I think if you're having that exact conversation you mentioned, Whitney, with an investor or the syndicator, make sure that the investor understands that timeline and they build a team around this as well. CPA is a great person to have in this transaction, real estate lawyers are great person to have in this transaction. The investor wants to speak with these people before they even start to think about doing an exchange. That's one.

Once they want to execute the exchange, they have to work with their title company or another third-party entity called the qualified intermediary. They have to work with these people. They absolutely cannot take constructive receipt of the funds from the sale. They do that and this whole situation is done. That is a mistake. It's cardinal sin number one, you cannot take constructive receipt of these assets. The easiest way is to work with your title company. Most of them have qualified intermediary capabilities, and they'll take constructive receipt of those funds. That's the first step for them. Once that closing hits, they have two big dates to think about. One, they have 45 days from that closing date to identify property, and they have 180 days from the closing date to close.

[0:15:07.5] WS: When you say identify, could that be like, does that need to be a deal that an operator, say, he has put out to invest in. Is that the same thing?

[0:15:15.8] BB: Yeah, absolutely. If the investor is walking through this process — so they can do this a couple of different ways. The way that we prefer people to do this is to be completely organized before they think about selling. They're able to sell and then immediately allocate. If they're able to do that, we don't need to worry a lot about the 1031 exchange timelines and rules. We've taken care of it. We've gone from one property or maybe a couple of properties into the syndication and we're done. We don't need to concern ourselves with 1031 exchange.

But if this timeline is going to spread out a little bit, as soon as you get that 45-day mark, you have to document what you plan to invest in or — that's the identification. You have to fill out a document and submit that to a qualified intermediary. Let's imagine you're working on syndication. I have a great apartment building that you and your team had found, you're going to manage it, you're getting it under contract. It's going to happen in my 180-day timeline, but these 45 days is going to come first.

I need to get the address of that property, my ownership percentage of that property and how much real estate I will — how much fair market value real estate I will own. I need to get that on a sheet and submit it to the qualified intermediary. A good qualified intermediary will provide you with that documentation and guide you through what should be entered on that sheet. However, there are some that we work with where it's, "Hey, here's the paperwork. Good luck, guys." That's where it's a really good idea to make sure that you have a CPA lawyer or someone like myself to kind of quarterback you through that exchange could be very helpful. But the majority of QI should help you through that process. That's the first mark, is that 45-day.

[0:16:51.5] WS: Nice. I know we're running low on time, but I want you to have just a minute or two. Anything else that you can help the operator better understand or even — I mean, like myself. When we're having those investor calls, maybe some commonly asked questions or even things that we don't even know to bring up during that conversation, or that investor doesn't know to bring up that we should be aware of to bring up that maybe you and I haven't discussed already.

[0:17:15.5] BB: I think we nailed a couple of these pieces that I think operators should be thinking about. I think if syndicators, — of course, syndicators are listening to this. I want them to open their minds just a little bit to the possibility of the structure and sort of going after 1031 exchange money. Like we said, I think there's going to be a lot of it the next six to twelve months in the marketplace in terms of capital. And I think there's some good partners here that syndicators would really enjoy frankly working with to be part of this.

I think the couple of things we talked about, the highlight. The biggest thing the way that syndicators can help is ask, "Hey. You're thinking about 1031 exchange, have you built the team around that? Do you have your CPA on board? Do you have your lawyer on board so that they understand this process?" Do you even understand how much tax you owe? We'll walk through this process with people — and the tax bill may not be as bad as we are talking about before. It might not be 40%, right? Or it may be an amount that is okay, that you can kind of tolerate or you could offset with other tax things. The CPA is so critical. That's a good, great question for the syndicator partner to ask.

Investors, the questions they should be asking of syndicators, we really encourage our investors to start thinking about track record and to really understand that. Then to really understand frankly how that syndicator works, how do they operate. It's critical. You're trusting someone else to run this investment asset for you. You got to be comfortable with what they're doing.

[0:18:36.8] WS: What's a way that you have recently improved your business, Brandon, that we can apply to ours as well?

[0:18:42.4] BB: Oh boy, it's getting on podcasts like this. I think one thing that I've sort of taken seriously during this quarantine we have as a business is using and utilizing LinkedIn. I can't sort of underestimate the power of that tool when operate and done correctly produces fabulous opportunities and ways to help. Really, it has to be done in the right manner. It's providing value first on that platform, taking interest in other people first, making connections. Once you do that, I mean opportunities flow left, right and sideways. I'd really encourage folks to think about taking that tool very seriously.

[0:19:19.0] WS: What's the number one thing that's contributed to your success?

[0:19:21.9] BB: I have narrowed it down to one. I think my background holistically has been really helpful. It's sort of sitting around and thinking about like, "Why didn't I get into real estate earlier?" Like, "Why didn't I start doing this business earlier?" It's so interesting and fun for me. Maybe this case for a lot of folks, I think we've walked through the experiences we're supposed to walk. And we learn the things we're supposed to learn. Like I wouldn't understand some of these complicated offering documents if I didn't work at a hedge fund for six years. I wouldn't understand how to present to high net worth investors if I didn't work in corporate America with CEOs and CFOs all the time. I wouldn't understand how to do those things if I didn't do that.

I think walking through the variety of experiences that I've had just sort of led me to this point, and I think that's critical. Even if you're in a spot like — you're listening to this in a spot where you don't want to be at, find the value that you can give to other and you can take out of that experience, then just kind of keep rolling forward. You'll find what you're supposed to do.

[0:20:16.6] WS: How do you like to give back?

[0:20:19.1] BB: In a couple of different ways. Formally, I sit on the board of directors of a daytime homeless shelter called Repairers of the Breach. I'll plug the heck out of that on this call. The homeless situation that we have — I live here in Milwaukee, Wisconsin. Homeless situation we have here is real, and these people have absolutely no where to go during the day time, considering the lockdown COVID situation. The stress on the facility is high, the value that we're getting from these people is great. That's one way that I love to give back. Also, very active in our church community here. Been trying to do everything we can to put as many people on those seats as possible, as COVID possible right now.

[0:20:54.8] WS: Brandon, thank you so much for sharing that, and giving back to the community in that way, and just helping those people and grateful just for you sharing about the 1031 exchange and how that relates to this syndication process. It's complicated. I think it seems overly complicated to most people, so we just kind of stay away from it, right? But it could be a very good source of capital for operators when we're not scared of it, and especially when we know experts like yourselves.

Thank you for running through that today and just opening our mind a little bit to those options as an investor and operator, as syndicator. Tell the listeners how they can get in touch with you, to learn more about you.

[0:21:35.8] BB: Yeah. There are couple different ways. One on LinkedIn, look me up there. I'm very active there. Email is brandon@insight1031.com. The website is insight1031.com. Go and check us out there. And yes, syndicators, I love to hear from you. Please shoot us a note, tell us about yourself. This market is very fragmented from our perspective, and we just love to learn about as many syndicators as possible. They're doing great work.

[END OF INTERVIEW]

[0:22:01.2] 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 are 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]

[0:22:41.4] 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]