EPISODE 748

[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]

[0:00:24.4] WS: This is y our daily real estate syndication show. I'm your host Whitney Sewell. Today, our guest is Shannon Robnett, thanks for being on the show Shannon.

[0:00:32.6] SR: Whitney, thanks for the invite.

[0:00:34.4] WS: Shannon has been a builder and developer all his life. A passionate real estate investor and has done plenty of projects but always wants to learn more, their team is building a brand new projects, leasing, managing and creating some pretty cool returns for investors, while the track record and focus in the treasure valley, maximizing their knowledge to the development and best possible returns, Shannon says the best part of their projects is that they're local and improving their own home town. Shannon, thank you again. Looking forward to getting into maybe your market a little bit but also just the developer side of the business.

We've had numerous developers on but not that many, you know? I love hearing your take on buying developing versus buying projects that are already built and just getting that take. I know there's listeners who are in that boat of trying to figure out, do they want to be the developer or not and what lane they're going to be in. Even the investors that are looking at investing and development projects versus value ad top projects or whatever that may be — or other asset classes altogether.

But welcome to the show, give us a little more about your background in real estate and let's jump in to your superpower.

[0:01:39.5] SR: Sure. Well, you know, Whitney, I come from a long line of real estate agents in my family, my great grandfather was a realtor before the great depression, my grandmother, my mother, myself and my son have all been realtors. My son is currently still in the business and my mother, at 70 years old, was out showing properties yesterday.

She can't give it up but you know, my dad was a builder and developer and I watched at a very young age, probably things I shouldn't have at the dining room table like 1031s and what happens to the market if we sell this and what if we buy that and that's the way I grew up.

And so, I didn't know any different really, I'm sitting here going to college because I think that computer information systems is in my future and my brother's building two or three houses a year and doing every aspect of it and making about 50 grand a year at 19 years old in 1990 – gosh, I'm going to date myself here — 93, 94 and I thought, you know what? That's the way to go, this college thing can wait. I went and jumped back into that, the family business if you will. And I've always seen where I've got a client that wants something that is not available in the market right now.

Whether that's a warehouse building, whether that's a multi-family project, whether that's something and — I see where commercial real estate trades at a retail price, it trades at what the rents are, it trades at something more than what the sticks and stones cost, and I've always seen where I can build at whole sale. I can go by the lot, I can go build the product and unlike a residential home that trades at some sort of the emotional value, plus cost involved and kind of creates something there.

Commercial, you can really upsize your potential because you're able to take sticks and stones, put income to it if your formula's correct, you can create 25 to 35% in initial value that you really can't create anywhere else and that's by creating the actual mechanism, the first time.

[0:03:43.7] WS: Now, that's so interesting. I know there's a lot of people drawn to development because what you just said and could you just dive in a little bit to some of the pros and cons, other pros and cons that maybe not normally known to the new investor.

[0:03:56.3] SR: Some of the cons are sometimes you don't know what you don't know until it's too late but let's focus on the pros because everybody likes to hear about what's good about developing and we can sit here and scare anybody if we want to — but the great thing about developing is, you get to bring your ideas to life.

You get to go down, and I've made a lot of friends over to my 25 year career here in Idaho, with people at the building department, people at planning and zoning and you get to work with them and I get to improve my backyard. Our city is growing at the fastest pace of any city in the nation right now and I get to be a part of that and it's my designs, and it's my belief in what this area of town needs and that is really what's coming to light and I've always kept the idea, I've always kept the thought process and I've walked into every deal like I'm the dumbest guy in the room.

I've asked a lot more questions, than I have — said my opinion, and I've always been able to get people to help me bring that dream to life so that at the end of the day, what we're seeing happen is we're seeing a raw piece of land turn into a commercial investment that is a benefit to the whole community and then out of that, we're able to create a significant upside for the investors in that development project.

[0:05:14.4] WS: Nice. That is awesome and I know, you know, you had mentioned even before the show, just the importance of being able to tailor an investment for the investor and creating the deal around that. Could you just dive in to that a little bit? I think it's just interesting take on that and it's important to be able to do that, and know who your investors are and what their desire and need is.

[0:05:35.2] SR: Whitney, again, I'd love to think I came up with something ground breaking but it really came to me when I was having an argument with my dad and I wouldn't call it an argument and more of a heated discussion — that he was losing — but the reality was, you know, my father is 70 years old, he's at a place in his life where he's very comfortable and what he wants to do is put his capital to work and live on about a 7 or an 8% return but he wants a lot of safety in that.

I'm at a place in my life where I don't have enough of a pile yet to kick in to a 7% return and live to a standard that I'm going to be comfortable with, and know that I'm done doing what I do. And I think that a lot of times when people look at investments, they can't find one that fits them and I look at those gross scenarios — where you're looking to grow your pile of money and you got a hundred grand and that's a 7% return in a 10 year commitment, it means that now I'm going to be 57 years old and I'm only making 7% and that will grow, that will definitely get bigger — but at the end of the day, can I grow quicker and can I grow different.

And what we do in a lot of cases is we have a growth syndication where we take investors and we say okay, listen, I'll give you perfect real life example — we did a project that we're in the process of right now, the cost of build up was 5.3 million dollars, the appraisal came in December of last year, it's 6.3 million dollars and I needed to raise 1.8 million dollars in capital, I put in 250,000 of my own money and raised a million-five beside that. Those investors were there for one purpose and that purpose was to build that project out. We went and got a bank loan, we're in the process of building that out.

We've already got offers coming in on the project that are well over the appraised value and when we get that project full, those investors will make money and be bought out of that but the only goal was to get it built. So after 12 or 14 months, those investors will receive, I don't want to brag — but over 35% return.

[0:07:35.7] WS: That's pretty amazing and what 12 to 15 months —

[0:07:38.9] SR: It is and then most of those investors, they used a self-directed IRA which protected them from the tax implications of what happened there, they put it back in there and they're standing in line for the next syndication to be built and with that, they're able to grow their nest egg to the point that after doing that for 10 years, now they have a pile of capital that they can invest in a syndication that might take 10 or 12 years down the road or a five year exit plan and a 19% IRR, which will put them in a great place.

But when you look at a lot of value ad syndications, they're attempting to put both my dad and myself in the same deal and say okay, well, we bought this for retail and we're going to grow, we're going to get 5 or 6 or 7% appreciation in this particular market for t he next 5 or 10 years and then we're going to sell and we're going to make money in 10 years. But it's not fast enough.

Yet it's not safe enough, and yet it's not – trying to figure out who is doing what and making sure that we put the right investment in front of the right investor, I think is that thing that has helped us be successful because showing my dad how he can make 35%, he looks at me and goes yes, but — I don't get paid this month, I have to wait a year to get any payments, right? And that's the big key, that's the thing that I've learned from trying to figure this out.

[0:09:01.4] WS: No, I think that's very interesting. I mean, it's just great that you're bringing that out. You mentioned it not being safe enough and like to do the value ad and love your opinion on that. Just what you're thinking when you say like not safe in it.

[0:09:16.4] SR: I get into the argument a lot of times with people that they say well, when you buy value ad, you have cash flow immediately. And that makes it safe. But the reality is, the value ad is usually 99% of the time purchased in a state of disrepair that you're buying it for, let's say you're buying it for five and a half cap, in a five and a half cap market.

Maybe you're buying it at a five and a half cap and a six cap market and then you're putting in another 10 or $15,000 a door in cap X. You're really over market at the time that your syndication is now looking for that forced appreciation. And what we've seen in market cycles is there's a cooling spot in the market — and COVID had definitely been a bit of a cooling spot in this market, 9/11 was another one, the dot com bubble —I mean, all through our lives Whitney, we can reach back and find in history, there were cooling spots in our market and this is another one.

But when you're at that point, if you bought something in December of last year and you put it on your cap X by the time COVID hit, you're sitting there at top of market unable to force those appreciations but somehow people call that safe because you are receiving rents.

The reality is, that's what I don't have to deal with. When I have a product that at completion, has got an appraisal, I'm not drinking my own Kool-Aid, it's not a spreadsheet that I built, it's from an outside third party appraiser that says my project is worth a million dollars more than — 20% more than what we're building it for and I know that we can get better rents than what the appraisal says a year later. I don't have to rely on anything being forced to appreciate.

When I'm building in a 3% vacancy market, I don't have to wait on vacancies, I don't have to do a lot of the things that happen in value ad, but a lot of people think about it and go, well there's risk in the building and to some degree, I take that element of risk out in my own line because I've been the builder for 25 years. I've got a track record with over 200 million dollars in personal transactions that I've been a part of and built everything from police stations to city halls to schools, to gymnasiums, you name it, I've built it and so I take that part out because I don't have any fear of the developer in the builder myself, not performing.

So you do have an element of risk on each side but the reality is, it's a mitigated risk that I can control and I look at it this way, when you go back and you do the math that I just talked about with that deal — you got 5.3 million dollars in value in cost and you raised a million eight, you got 3.7 million dollars borrowed, covering the nut on that 3.7 million dollar loan, it means I can get 60% rents, compared to my appraisal and still float my boat.

You just bought value ad and you need 100% rents because you're at a 110% of cost. When you look at true safety, what someone is saying is safe isn't necessarily safe but it's perceived to be safe because it's already got rents assigned to it that are supposed to be coming in.

[0:12:24.8] WS: No, that's very interesting. What about just – the rents that you're counting on where after you get a development done versus the appraised value, it's going to be valued based on what the income is, right? Or you're saying like the appraisal before say it's fully leased or something like that.

[0:12:41.3] SR: We always get a pre-construction appraisal, and so I have an appraisal that as of December of 2019 said that these seven comparable products in the market should render a rent of this many dollars based on your NOI, based on a 37% cost ratio on your expenses and based on this, you should receive an NOI of this and what the cost approach that a five and a half cap, this will be the value of your project, right?

And so, the appraiser looks at that and they tell us what they believe the cap rate is in our market, what they believe the rents are and what our comps are. Now, one of the other things that we've always done very successfully Whitney, it's what a lot of successful value ad guys are good at, is that's in bringing in three income, right?

I mean, we look at the appraisal, we go, that's a fantastic base rent but what are the ad ones we can get in our market place that are going to give us 120% of the given rent in the market, is that preferred parking, is that going to be a cable and internet package when we can make a couple of bucks on, is that billing back the rugs in our area. What is it that we can do that can give us additional income but then takes us if all we got was market rents but we had over services that we're able to sell, we're even able to do more than that. I'll give you another example. The last project we finished in July of last year.

We were able to add $70 a door to the project, there were 180 units in that particular complex, which you do 180 times $70 a month, times 12 months a year at a five cap and it's almost three million dollars in value we added over the appraisal, just in our additional insular income. This is fantastic money that we made even over the appraised value but it's somebody else's Kool-Aid.

[0:14:34.2] WS: I like how you said that. It's so interesting and Shannon, what's been the hardest part of just to development business for you or maybe you can speak to others who are newer getting in that you see, I'm sure lots of people trying to get in to the development space.

[0:14:49.4] SR: The thing that's the most difficult, I think, is the reality that every step that I take, there's somebody else making comments on it. You know. If you want to go out and do a value ad proposition, you go out and you look at the project that you evaluate it, and you decide if you like it and you put together a spreadsheet as to what you can do and how you can make it better, what's going to work and there is really nobody telling you no because the building is already built. You want to paint it in a different color and nobody cares. If you want to change the carpet out, that's okay.

You want to do these things, nobody is telling you no but in development, you go in with a great idea and the city wants to see more stone on the project or they want to see a different roof pitch or they want to see, you know, this is kind of a colonial look they would rather see something more modern or the bank says that you know what, you are really not going to get that kind of rents or we are not going to loan you that kind of money.

Everybody in the development business tends to try and tell you no, and so you've got to solve that problem. And so as a developer, you are the supreme problem solver because you got to solve all of these problems. You've got to solve the management company problem, you've got to solve the lease of problems. You've got to solve the connectivity issue. We just did a deal and we found out that it is going to cost about $15,000 in four months to get internet service of any quality to our project.

Well, if we are looking at making a $35 a door in profits on the internet service, we need to have that so we've got to solve that problem that we didn't know about until we were half built and so when someone looks at it and says, "Oh I want to be the developer," I can take them to the job site and I can start with the plumber and I can ask the plumber who on my job is making the most money and he'll say, "Oh the concrete guy is" so you go ask the concrete guy and he says, "Oh the framer is." And the framer says the roofer.

Everybody is pointing to everybody else but you know developing is just another avenue. It is just another aspect of being able to create something just like a value add as a creation. It is taking in and rebranding something, it is breathing new life into something. This is just breathing life into it for the first time and bringing it to market and in that the biggest profit margin is always in the first go around.

[0:17:02.8] WS: How do you prepare for a downturn when doing a development?

[0:17:07.0] SR: Well, you know you always have to have that in the back of your mind but again, if you look at the numbers Whitney, I look at just the sheer rent I would have to get. So if we look at that, I'm at 70% loan to cost. I am at a 60% loan to value. I am also at a 60% need on my rents to market so I can actually prepare for a downturn better than most of my neighbors who have been recently purchased or recently refinanced, because I will be in a position where I can make the decision.

Do I take 60% of rents or do I stay happy with the 100% rents and 60% occupancy? Now obviously neither one of those is something you want to jump to very quickly, but it is something that you have room for in your strategy and you can account for that.

[0:17:58.1] WS: What do you predict to happen over the next six to 12 months just in the real estate industry and are you looking to continue to develop or are you sitting in the sidelines? What is your take?

[0:18:08.4] SR: I am not an expert in any market really other than my own and depending on who you ask, I am not even an expert at that but what I have been successful in doing, I do continue to do and what I am really seeing Whitney is over the last six months, you know Idaho has been a market that a lot of people have overlooked but a lot of people have been moving here year over year for quality of life, and with what's happened in the economy and the world lately.

Where people could take their jobs and pick where they want to live, we have seen an uptick in our market that will last for the next several years. We have no vacancy, we have no product on the market, we are very bullish on what is happening because regardless of what happens on a national level, Idaho will continue to pick up people who are tired of living in big cities when bad things happen. Let us all agree that San Diego is a phenomenal place to live unless the power goes out.

And you're stuck with four million of your closest friends fighting over the last taco in town, you know? So when you live in Idaho, you don't have those questions. We have a different quality of life and a lot of people are moving here for that quality. So we've got about a thousand doors in our pipeline right now and different stages of deals. We've got stuff that are permit ready, we've got stuff that are coming out in the next couple of months.

We got stuff that we finished in the first quarter of 2021. We've got stuff at all stages but we are very bullish because we have seen that interest rates are going to stay low and we've got an election that everybody is commenting on right now. We all have seen the results of that, which will be contested but the reality is that it doesn't change the fact that people still need houses. It doesn't matter who our president is, people still need a place to live.

And it doesn't matter who our president is, people are going to decide that because of that presidential choice, they are going to do something different. It doesn't matter. There is going to be half of the nation doing something different whoever is in office today. That is not the reality, the reality is people are going to make choices and those choices aren't really going to be as influenced by the election as they think because they were going to make that choice anyway.

People are still going to move out of mom and dad's house. Mom and dad are still going to downsize and get rid of all the junk and the clutter that the kids left behind when they went to college. Those natural stages in life are still going to happen and so we are very bullish on preparing for that and building out through that. We've got plenty of product in front of us to do that. We've got lots of land to do it with your night out.

[0:20:31.2] WS: And Boise is an amazing place. I was there a few months ago just flying in. It was just so beautiful. It is obvious why people want to come there and live especially if they can work remotely so I definitely agree with you. It is a beautiful place. Shannon, to achieve success in almost any business specifically in real estate, actually people have to have a high level of self-discipline and how did you gain such a high level of self-discipline?

[0:20:54.9] SR: Wooden spoon. My parents –

[0:20:59.1] WS: I love that.

[0:20:59.9] SR: Maybe I should have hesitated a little bit more to make that not so obvious but you know my parents had a lot to do with what I grew up with. You know I considered it slight labored when I was working every Saturday you have to go to work with dad but it was teaching me a trade. It was teaching me how to deal with life and how to work and how to really be of value to myself and to be able to create income for myself and I carry that on through life because I knew that I wanted things.

And I remember having the conversation with my dad. I was about 21 years old and my first child was very colicky. My only child at the time was very colicky and was up all night and I was working late and I was working two jobs and I was trying to do these two things and start a company and do all of these stuff and I ask my dad, “Is this all it is?” He says, “For about the next 30 years this is all it is son but then after that you’ll have some things” and I said, “Like what?” he said, “Aches and pains.”

And I realized at that point that life wasn’t going to hand me anything if I didn’t dig in and get after it. And so after applying that elbow grease for the last 25 years, I am starting to see that my dad was right because my back hurts, you know, my knee is start to bother me but life is getting a little bit easier because I have gotten used to the routine of getting up at five in the morning and being at work at six and working until the work is done and that has been my routine and I have stayed after that.

[0:22:28.0] WS: Great answer. That’s awesome and I love hearing that and we have heard it time and time again it is just business is not handed to you in anyway. Shannon, do you have a couple daily habits that you could just give to the listener that man, you know these couple of things have just really transformed the way I do business or have helped me to go further, or anything like that?

[0:22:49.3] SR: You know the reality is the biggest habit that I think I’ve continued in my life is to continue to educate myself. You know there is always something new to learn, there is always another perspective and one of the things I look back on in my life is that I took too much time away from earning money by trying to reinvent the wheel and do it myself. If I would simply be able to have learned it, to be able to have read it out in the book and copied it, I would have cut years out of my education cycle — where the cycle while learning turns into earning, I would have cut years out of that.

And so as I continue to reapply the principles of reading and understanding what other people have done and those all of the examples from history and from life and biographies, all of that stuff is very, very simple to assimilate in its shade. So continuing to educate yourself, continuing to ask questions and continuing to try new things as you know Whitney, the most expensive thing you can have is a closed mind.

[0:23:54.9] WS: Great answer again Shannon, can't agree more. I love the desire to learn but what is a way that you have recently improved your business that we could apply to our business?

[0:24:03.9] SR: Stop trying to do everything yourself. You know one of the things that I know is to stay in my swim lane but the more I found that if I hire someone that is gifted in that area, I am going to get more results for the money and the manpower spent than if I am trying to do everything. A perfect example is just a market study. I can do a market study, Whitney. I understand that, I can make that a reality but the reality is, I can pay for a market study, go do what I do.

Actually make more money than the market study cost, have it done by an expert in my market and get expert results that are going to serve me better while I went and made more money than that costs if I would have done it myself and that's the truth that we all battle is having the money, we got to pay something when it doesn't cost for us to do it but there is an opportunity cost that we have to give up for that to truly happen.

[0:25:02.0] WS: What's your best source for meeting new investors right now?

[0:25:05.2] SR: Really networking with people like yourself, being out there on social media is a great spot but really become a thought leader in your area, be good at what you are advising on. I only advice on ground up development. I could honestly tell you what would be wrong with your model in a value add, I couldn't tell you what your weaknesses are on that. I don't even pretend to know. What I do know very well, I believe I can be an expert opinion on — but I stay in my swim lane.

And when people see that I know what I know, they tend to gravitate toward that because they resonate with the development type that I am looking at. They resonate with the investment model that I am pursuing. I am not pursuing a 10 year investment. I am pursuing a 12 to 36 month investment with much higher returns but there is a reason why we're doing it because our pile of cash isn't big enough, and when people understand that, they resonate with that and they gravitate towards that.

And instead of trying to be everybody for everybody, or be all things for everybody, if I am just true to what I know the people that resonate with that will be attracted to me and I think just finding platforms like this that allow people to see what it is I do and why it is different, I think are excellent avenues for me.

[0:26:21.7] WS: What's the number one thing that's contributed to your success?

[0:26:24.7] SR: Hard work. I was recently joking with my brother who moved to a resort town 10 years ago and is now the number one builder in that resort town. He is bigger than number two, number three and number four combined and I was teasing him about being an overnight success. It only took him 10 years to prove it, right? And that's the reality. You can't do something and expect six months to get you results. You can't do something and expect six years to get you results.

I have been doing this for a lifetime and I am still learning how to get better results and continuing to do that, day in and day out, is really what's going to continue to prove your model and continue to make you a better investor and a better entrepreneur.

[0:27:07.3] WS: How do you like to give back?

[0:27:08.9] SR: Oh man, I love being a part of the community. We have done a lot of partnering with Habitat for Humanity. I love being a part of charities and things like that where you cannot only give back to the community but you can improve your community. I am able to improve my community with taking a very jump covered lot and turning it into a place for people to live and then working on other ways to improve our community by being involved in different boards in town.

[0:27:36.2] WS: Shannon, I am grateful for your time. It is a pleasure to personally get to meet you and I know the listeners feel the same just getting introduced to you and getting to better understand why you love development and why you have been in it this long and just the results from hard work, nothing can just replace the consistent, massive action, and you are definitely an example of that and so I am grateful for your time. Tell the listeners how they can get in touch with you and learn more about you.

[0:28:03.8] SR: Well yeah, so shannonrobnettindustries.com is where we're at or My Vertical Equity for Investors, myverticalequity.com is where we're at. I'd love to get to know everyone better. If you go to My Vertical Equity, you can fill out a form and I'd love to talk with you personally. I take all the phone calls myself so that I can get to know people and really truly understand what your investment needs and desires are. So that when we are talking about stuff, we are actually tailoring it to what your goals are in life not what I have in my personal arsenal right now.

[0:28:35.6] WS: Awesome Shannon, that's a wrap. Thank you very much.

[0:28:38.6] SR: Thank you.

[END OF INTERVIEW]

[0:28:40.1] 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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[END OF INTERVIEW]

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[OUTRO]

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