EPISODE 791

[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]

[00:00:24] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today our guest is Justin Elliott. Thanks for being on the show, Justin.

[00:00:32] JE: Thanks for having me, Whitney. Appreciate it.

[00:00:34] WS: Yeah. Justin has been investing in real estate since 2016. He has grown his portfolio to 234 units under management since then. Justin now focuses on raising money from private investors to create great returns through multi-family real estate investments. Justin, welcome to the show. Give us a little more about who you are, maybe your current business model. And let's dive into your superpower that can help the listeners.

[00:00:59] JE: Sure. Right now I'm a syndicator, but I got started the way a lot of people got started, which is smaller duplex, triplex, that sort of thing back in — about four years ago. And I had acquired a couple of my first properties and thought this is going to be a pretty slow burn to get to where I want to be wealth-wise. And so I wanted to step up my game and get into bigger apartment buildings. And that's the direction I've gone.

So I think — how I can help a lot of your listeners is just explaining kind of my journey and how to get started in bigger apartment buildings, because it's a bit of a leap. It's the same thing, but it's different, right? It's a bigger challenge and there's a few ways that you can go about it. But it's been a fun journey.

[00:01:37] WS: Nice. No, I think that's such a common misconception, right? You have to start with single family or small multis to get into this space. But looking forward to hearing about your journey, I think it's helpful and encouraging to the listener who's trying to do the same thing. Maybe you can speak to that a little bit. You bought a few small properties, small multi-families and it was like, "Wait a minute, this is going to take a long time to reach your goal," right? Or your income goal or whatever your goal was at that time. Tell us about that a little bit how you learned about the syndication space and thought it was something you could do.

[00:02:09] JE: I knew about syndication, but I didn't realize really what it was starting a business, right? I mean that's what you're doing when you're starting a syndication. But how I wanted to get into it was I wanted to get just bigger apartment buildings. So I thought, "Hey, I'll get a 10 unit apartment building. That sounds like a good number." And started down the journey of underwriting. That was kind of my main thing. So went out and found a tool to use to underwrite and started underwriting a lot of deals. Even made an offer on a property before I really knew what I was doing, and I didn't get that deal — thankfully. I think the broker saw right through my inability to underwrite at that point. And I've since gotten better at that. But that was a big part of it. It was really learning how to underwrite a deal. And I suggest that anybody that's going to get into apartment investing even on the passive side should learn a little bit about how to underwrite, if not a lot about how to properly underwrite deals. So that was a big part of my journey.

Once I was kind of looking into 10 units and thinking about due diligence and commercial loans and Fannie and Freddie and all the intricacies of apartment buildings, I really thought it would be a good idea to get a mentor. So I went the mentor route. And that's another thing I suggest. I think there's a lot of ways to find mentors. You can pay for one obviously. You can build a relationship with one. But I think it's absolutely necessary if you're going to go raise capital to find someone that's been there and done that to help you get into business.

[00:03:31] WS: Elaborate on that a little bit about finding the mentor you chose, because it's such a large investment. And I remember, I hired a mentor. I've had numerous mentors for different things now. But at that time getting started in the syndication space, I knew I had to have a mentor. But it was a big investment. It was even a much smaller investment than what most are today. But at that time — and that was a big decision for my wife and I, because it was the biggest check we've ever written besides for our home, maybe, or something like that. So how did you go about finding that mentor and deciding, "Okay, this is the one that's going to help me get to that next level?"

[00:04:05] JE: I found someone local. I'm from Minneapolis, and there's someone here that — Drew Whitson is his name. He's a syndicator that has done a lot of these types of deals. And I got hooked up with him through a referral kind of in my network in a mastermind group. And so I ended up just paying Drew a mentorship fee to help me. And that's — a lot of the ways — And there are a ton of programs like this, as you know, that are out there that you can do. So that's the route I went.

I had just sold a business that I owned and didn't make a ton of money, but I had enough to afford the coach. So it's kind of like for me it was reinvesting in my business. And everybody does something like this. And if they're good at what they do, right? At some point they found a mentor or they've paid a consultant, and it's no different in real estate business. I just chalked it up as a business expense and something that I thought would help me get to the next level. And of course, once I wrote the big check, I didn't want a 10 unit anymore. I wanted to do something bigger that would have a bigger payoff. So I started immediately thinking bigger and looking at bigger deals because I had this mentor on my team.

[00:05:07] WS: No doubt. It gave you confidence. You're immediately looking at bigger deals and considering deals that you probably wouldn't have beforehand. And so then what was the first few things that you did though to get to syndicating a deal? What did Justin do to — what was your focus at that time moving forward?

[00:05:24] JE: My focus originally was on finding a deal, right? I mean let's go talk to brokers and try to build relationships and find a deal. But I didn't have a ton of success with it. And that's really the tough part of this business, is breaking in with brokers, because they can sniff you out. They know if you've got a couple of multi-families or if you've got a few hundred unit portfolio by just talking to you.

I talk to a lot of brokers, and I consider myself pretty good at building rapport with people, but I wasn't getting the inside track on deals. So I found I got the inside track through two different ways. One is a relationship with a property manager. And it's something that's often overlooked. I think people tend to just go to brokers first, but your property managers can be your best friend when it comes to deal acquisitions. And so if you can build a relationship and let a property manager know that you're legitimately well-funded, well-capitalized, and you can close on a deal, they can help you find them. They have a network within their local market where they know when deals are coming up. They want to manage them. So if you're willing to do business with them, and that's assuming you properly vetted them, right? And you've asked them all the questions. They can hand you deals. So that was one way that I really got the most traction.

And then the other way was just building relationships with other investors. So reaching out to people that are doing what I do or trying to do what I do and telling them what my strengths are and maybe where the holes in my game are, right? Where my weaknesses are? And how could we partner together potentially. And so that's how I actually found my first deal, was a partner that I had talked to that got the lead on a deal through his property manager. So it's kind of a combination of both those things. And I was able to help him out to get this first 29-unit deal closed.

[00:07:06] WS: Nice. I mean all through relationships, right? Even finding your mentor, you're part of a mastermind I think you said or a group of investors, you found that mentor. But even finding this deal, you hammered home, which I think is so important and also under-looked or under-utilized is that relationship with the property management group, like you're talking about. It’s so important. We've had so many connections through our property management team and company and just that relationship is so important. But — and then your relationship with other investors helped you find this deal or to close it, get it done, whichever. But what was your role? And let's talk through that a little bit.

[00:07:41] JE: My primary two roles in the deal were due diligence and capital raising. So I was involved, and mainly it was like lease audits the financial pieces of it rather than physical. This deal I’m up in Minneapolis, this deal was in Augusta, Georgia. So trips cost a grand to get there. So we didn't want to have to all go several times to the property. So we really just did a good job of dividing up all the due diligence duties. And so that was a big part of my role. And then raising capital was really, I would say, the tough part, right? The most challenging part was, “Okay, let's go find investors to invest in this first deal that we have.”

[00:08:20] WS: Nice. Let's talk about that. How did you raise that capital? How did you find those investors? What are some lessons learned for you to make that happen?

[00:08:27] JE: So I started a year prior to closing this first deal, probably, pretty close to that. Teaching out to my network. I had made the commitment and decided that I knew I wanted to syndicate a deal. So all my friends, all my family, all my business acquaintances, everybody that I’ve — business partners from previous businesses, all that stuff. Reaching out to them with a very general email just explaining what I was looking to do. So something to the tone of, “Here's what I’m doing. I’ve been doing this where I buy these multi-family properties. I put some money into them. I fix them up and I refinance them or I resell them. And I’m looking to do that on a bigger scale. And in order to do that, I need to bring some investors with me and help them make a little bit of a profit as well. So if I find something, would you be interested in at least hearing about what I have?” So not a big ask, right? Not like, “Hey, give me 50 grand.” But, “Can I just keep in touch with you?”

And from there I developed just — a list of maybe it was initially 50 or 60 people that really had committed nothing other than hearing about a deal. And then I kept in touch with them from there and just let them know. The tough part is once you do that, you really feel like you got to go find them a deal, and that didn't happen right away for me.

So I was actually letting them know about deals that I didn't find, right? I underwrited X amount of deals this month and nothing's looking good. And of course this is at the top of a market cycle, right? So deals were not easy to find or are not easy to find, even still today. So just let them know that I'm looking for the right one. And I think that helped me build some trust, because people knew that I wasn't just going to go get anything that crossed my desk.

Eventually got the one under contract and went down the path of really starting to get more firm commitments from people, which was basically just an email, some phone calls, a lot of conversation, texts, talking to everybody that was on my list. We ended up doing like a pre-recorded webinar. A lot of people do webinars live. We didn't want to mess with the live webinar, just because being our first one, we wanted to be very smooth and kind of very clearly communicated. So we did a pre-recorded video and sent that out to our list of investors and had people watch that first. And then we had conversations with them and got soft commitments from there. We ended up getting the deal funded. It took about eight weeks really from like the beginning to the end, which is a long time, right? I mean, there's people that will get deals funded in 24 hours. We were taking eight weeks. But that was really a product of what we were learning on the timeline of things. We would do it much differently or we have done it since then very much differently to make things a little bit smoother. But it ended up working and we got the deal funded and closed the deal.

[00:11:02] WS: Nice. Well, I want to jump into that a little bit. What you would do differently to make it more smooth now as you talked about. But any other just like lessons learned as far as raising capital or maybe that's part of it as well?

[00:11:14] JE: Yeah, the timeline is a big thing. So having a very firm timeline where all the general partners are on the same wavelength with their investors. So I would spend more time getting the word out about the deal ahead of the funding of it, right? So we were kind of doing everything at once. It's like if we had an investor that was interested, “Okay, here's the PPM. Wire the funds,” right? We might do that like week two where we had people funding the deal for six weeks. So what I would do is I wouldn't do that. And this is what we've done since then, is we've created a deadline to wire funds. But we've also created a time basically a few days before that to open the funding of the deal. And our time is really spent prior to that educating people on the deal, getting kneecap to kneecap with investors and talking about the returns. And really just making sure that we get the word out and have those individual conversations up front. Then we say, “Okay, it's — whatever. It's this date. We're going to open funding,” and just leave it open for a few days to try to make sure that there's a clear timeline that the investors understand to get their money in.

The issue that that's preventing, really, is something that happened to me where I had a couple investors drop out. And you want to have enough time on the backend of that funding that if you don't get it funded, you can go to plan B. What the situation I found myself in was I had a couple people — I had everybody committed, right? didn't want to talk to anybody else about the deal, because I'd already had these verbal commitments, yet I didn't have everything wired. And of course what happened a couple weeks before the deal closes, I have a couple people drop out and I gotta scramble to find those last couple investors.

And so you don't want to be going to the closing table not fully funded. And so that's why I think the timeline is something you should think of even if you're thinking it's going to be a while before you raise money. Go ahead and start planning out a timeline for your capital raise ahead of time so that when you get that deal under contract, you know exactly how the timing of it's going to play out.

[00:13:23] WS: Such great advice there. I appreciate you sharing that just being transparent about this deal. And investors do drop out right? I mean life happens. It's not always because they hate the deal or don't trust you, but things happen in their life. Over that period of time they commit, but then all of a sudden their child's or their own car breakdown breaks down, or college expenses that they weren't expecting for a child, or whatever. Things happen. And so you better have a backup plan. You better raise more than you expected that you needed. We now have large wait lists after a raise or during a raise. And before I send out an email saying "You were oversubscribed," we've been oversubscribed a long time, because I want a wait list because of exactly what you just said. Because people will back out. And it gets easier, right? It gets easier over time to raise capital. But especially at first, you better expect people to back out.

[00:14:17] JE: Our second raise took two weeks. So it went from eight weeks to two weeks, and hopefully that gap just —

[00:14:22] WS: Congratulations.

[00:14:23] JE: Thank you. Yeah. Hopefully that gap just continues to close. But certainly, I think the more deals you do, the more you're going to have some people that couldn't get into the last ones that makes you full for your next one, that sort of thing. It's really the first one that's the toughest.

[00:14:36] WS: What else would you say played a role in getting to two weeks from eight?

[00:14:39] JE: People seeing that you've done it. You know what I mean? I mean people want to wait out on the first one. They don't want to necessarily throw the money in on your first deal. Now, I feel like — again, going back to the mentor, having a mentor. That reduced the amount of people that had the fear of like, "Hey, this is your first one," because I wasn't just doing this haphazardly. I'd kind of taken the steps to find someone and put them on my team. I can tell you, the second time I had conversations with people, it wasn't as new of an idea. They understood syndication because they looked at that first one. They understood the process more. So the second one becomes a lot easier, I think, because people just know more about the business you're running.

[00:15:23] WS: No doubt about it. They see your emails. And I like how you even talked about in the beginning, just sending deals even before your first one. Sending things you're looking at. Why they didn't work. How that built trust. And now you did a deal and they see that and it's like, “Okay, he's had some success.” And tell me, what do you share with those investors about that first deal maybe that didn't invest or do you?

[00:15:44] JE: That we closed, first of all. And then I do LinkedIn. So they follow me on LinkedIn. They see things like the building getting painted and new shutters are getting put up and, “Hey, here's the before and after rents that we've created.” I haven't gone full cycle on that first one. So certainly, I'd like to share that we created X amount of return, which I’m very excited to share that when we do it. That'll be obviously the next thing for me, is knocking it out of the park on this first, second, and third deals to really start things moving. I can't do that yet, but they can certainly see that, “Hey, I get what you do now. Okay. So you buy these things. They're not the greatest looking buildings, but you make them look great. Okay. And then you get rents up. Okay, I see how you do it.” So they're following along on that stuff on social media for sure.

[00:16:26] WS: Nice. Before we move to a few final questions, any other suggestions or lessons learned you want to share with the listener about learning to raise capital?

[00:16:32] JE: You got to talk to a lot of people. So I think, again, just open up your network. Tell everybody what you do right now, because you will be surprised who invests in your deal. People that I almost didn't send the email to because I’m like, “That person would never do it” — put 100 grand in.

I mean don't assume someone's not going to invest in your deal. Tell them about what you do. Ask them if you can keep in touch with them. Certainly, make sure to notify them when you get that deal under contract.

[00:17:01] WS: Justin, what's been the hardest part of the syndication business for you so far?

[00:17:05] JE: I think the timeline. The crunch that you're under once you're under contract, because as you know, 506(b), right? That's what we're doing. B is in buddy. You have to know these people before you can let them in on your deal. So once you're under contract, whoever you've talked to is all you can talk to about the deal. So now you're under a time crunch of — I gotta see if I can get X amount of people to invest in this deal out of X amount of people that I've got a pre-existing relationship with. And the clock is ticking. So that's the nature of these syndications, is you've got a closing date and you don't want to miss it, because that's your credibility with brokers and sellers. So that's the toughest part I think, for me, is, "Okay, you wake up in the morning. It's like here's another day going by. We're on the clock. Let's get it done." But it's fun.

[00:17:56] WS: What would you have done different now on that first deal knowing what you know now?

[00:18:00] JE: I would have been way more firm with the time that investors are allowed to wire the money. And I would have kept that window relatively short, maybe three or four business days of, "Hey, we're going to open funding here and we're going to shut it down on this day. And if we don't get it by that day, we're going to Plan B." Plan B might be bringing someone in as a GP to help. I would do that shorter window and I'd have plenty of time on the other side between when we fund the deal and when we close the deal. That might be actually like a month's time there where you can kind of figure out Plan B if you don't get your initial projected raise done.

[00:18:36] WS: Nice. Yeah, I agree completely. And it was a lesson we had to learn early on too about having some strict timelines, because you do have to have time to move to that wait list or figure out your plan B. No doubt about it. And how do you prepare for a potential downturn?

[00:18:51] JE: I mean that's all about conservative underwriting. You sleep at night because you've underwrote the deal correctly, and correctly means being very conservative right now with everything that we have going on. And people say that they underwrite — everybody I've ever talked to says that they underwrite conservatively. So without diving into too much, I mean there's a lot of things. Vacancy, right now, economic vacancy. Making sure that you're really over budgeting on that because you've got a CDC eviction moratorium, you've got people that are out of work. So you have to really go over and above on being conservative. And if the deal works, then do it. But regret the deal you didn't do. Not the one you did is kind of the key.

[00:19:37] WS: Some great advice. What's your projection for just the real estate market over the next six to 12?

[00:19:42] JE: Well, I think there's going to be some deals. Multi-family hasn't been hurting like a lot of people thought it would, and that's a good thing, right? That's why we talk to investors and get them into the multi-family business. But I think there'll be some opportunities, for sure, that come up. And I think that we probably have maybe even our roughest stretch here in the next six to 12 months of making sure that we're really tight with asset management and we're all over collections. And we're not as concerned about market rent bumps because we're not going to get those. But we're concerned about just putting people in the units and making sure they're paying. So we might see some opportunities because of that. I'm certainly going to be opportunistic, but my focus right now is asset management making sure that these first three deals are run very well so that my biggest goal is to get people's capital back that invested in my deals as soon as possible.

[00:20:35] WS: That's right. That's awesome. And tell me, how did you become so self-disciplined or gain such a high-level of self-discipline? I believe anyone that has a successful business just has a high-level of self-discipline.

[00:20:47] JE: I need accountability from other people to be honest. I don't know that I am the most self-disciplined person. I'm the type that might reach out to somebody and say, "Hey, let's have a little competition next week and see how many investors we can talk to." Or, "Why don't we check in once a month and see what we're up to?" That's where networking and mastermind groups have really helped me, because I more so look to other people and say, "Oh, that's pretty good what that person's doing. I'm jealous. I want to do that." That's more motivating for me. I probably wouldn't — if I didn't have that, I wouldn't know what to do every day to really be self-disciplined. So find people out there that are doing what you want to do.

It's important, like we talked about earlier, to have a mentor. But maybe go find someone that's just like a step above you, right? Someone that's not made it yet, but they're doing what you want to do six months or a year from now. And go see if you can outwork them. Do stuff every day. Be consistent. That's the biggest thing, right? If you decide that there's three things you need to do to be successful, do those three things every day no matter how big or how small. Just be consistent.

I mentioned earlier, it took me about a year from really starting down the syndication path to actually getting a deal. A year is a long time. There's a lot of days where I'm like I spent how much money and I'm working how hard on this and I still don't have a deal. So you will have those days. And the difference is the people that get through those days versus the people that don't. And I've seen a lot of people that don't get through them. And I respect that too. They probably just found something else they want to do and maybe this wasn't worth it. But you will have days where you're thinking this isn't worth it, right? So you got to continue through those days, and that's what separates the people that get into the syndication business and the people that never get there.

[00:22:29] WS: Well said. No doubt about it. You're definitely going to have those days. Just expect it up front, right?

[00:22:35] JE: Right.

[00:22:35] WS: Yeah. Already make that decision. You're going to push through. Is there a daily habit that you have that you're disciplined about that's helped you achieve success?

[00:22:43] JE: There's a book called *The One Thing*. I don't know if you've ever read it. It's pretty popular in the real estate community.

[00:22:47] WS: I have.

[00:22:48] JE: So there's always one thing I'm working on really kind of leading up into getting that first deal. It was — I wanted to go find one new investor a day, which is hard to do. You can't really just go find an investor, but you can go start to make connections. So I always wrote that down as a goal and it just so happened that one of my biggest roles in my first deal was raising money, right? So that worked out for me. I probably put a little less focus on the actual deal acquisition and like underwriting a deal every day. I did that at first, but I kind of got into more of the capital raising role. And so that's been what I've kind of been good at, and that's just because I put that effort in every day to try to expand my network and talk to people. And I've been valuable to team members because of my ability to go out and get investors on board. So it's paid off.

[00:23:40] WS: Nice. No. That's awesome. Tell me a way that you've recently improved your business. Maybe we've talked about it, but I'll ask you anyway. Recently improved your business that we could apply to ours?

[00:23:49] JE: I would say my business recently has been pretty consistent in that I think it's just about reaching out to people and trying to network with them. So, for me, it's been like LinkedIn. Putting out content, which is very uncomfortable when you're first starting to do it. And a journey I'm still on, but I am starting to be more consistent with just putting out content and growing the list of followers on my company page on LinkedIn.

I don't think LinkedIn has really served me in getting investors yet, because it's very hard to build trust with someone that you don't know to get to a point where, "Hey, invest $50,000 in a syndication," right? So I'm still figuring that out. But I've gotten a lot of good feedback about the content that I put out and I've gotten some people that are really tuning in. So it's worked in some regards. I think it's one of those things you have to do, is you have to put the content out. You have to let people know what you're doing. People have to get to know you one-on-one, and it's impossible to talk to everybody one-on-one every day. But you can put this content out there and you can talk with people via, like, a podcast like this or a video about underwriting deals. So that's one thing that I've changed recently that I never did prior to closing my first deal. And I think that closing my first deal kind of gave me the confidence to be able to actually go out there and be a bit of a subject matter expert on some things.

[00:25:09] WS: What's the number one thing that's contributed to your success?

[00:25:12] JE: I think consistency. Just waking up and doing something every day. Doing one thing every day for a year has probably been the number one thing.

[00:25:20] WS: And how do you like to give back?

[00:25:22] JE: I do a lot with just local things that we have in the community. We do food donations and trying to get the — I’ve got three kids, a six-year-old, a four-year-old, and a two-year-old. So I’m trying to get them involved. So anything that we can all do together either with the schools that they're involved in, the church, different programs around town, just small stuff. It's nothing big. I think part of the journey I’m on is to create some financial independence so I can really focus a lot more on stuff like that. So we'll just kind of be opportunistic with whatever things we're invited to do we go help out.

[00:25:55] WS: Nice. Well, I appreciate you sharing that giving back in that way, Justin. And just today going through your steps to getting to larger multi-family and why and the lessons learned in raising capital. So many people try to get started raising capital and getting into this business, and like you said, they decide to go a different route. It just takes a while, right? And it's a lot of work and just being consistent. Like you said, doing those things every day for a year or two years if it takes it, but keeping on going. Grateful for you just sharing that and being transparent about just the struggle of getting to that success, right? Most people would say success. And congratulations to you for making it and getting through those hard times and to where you're at now. Tell the listeners though how they can get in touch with you and learn more about you.

[00:26:40] JE: Check out my website, elliottmultifamily.com. Elliott is spelled with two L's and two T's. I do have a video on there that talks about the five lessons I learned in my first capital raise that might help you if you're looking to raise capital. So elliottmultifamily.com, you can find that.

[00:26:55] WS: Awesome. Justin, that's a wrap. Thank you so much.

[00:26:57] JE: Okay. You bet. Thanks for having me. I appreciate it.

[OUTRO]

[00:27:00] 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're 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.

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