EPISODE 868

[INTRODUCTION]

[0:00:00.0] ANNOUNCER Welcome to the Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Bill Ham. Thanks for being on the show, Bill.

[0:00:32.4] BH: Hey. Thanks, Whitney. Thanks for having me.

[0:00:33.8] WS: Yeah. Over the last 15 years, Bill has created a large portfolio of multi-family asset, his first 400 units were all bought with creative financing. He has written a book on creative cash to share those techniques with us today. The book is called *Creative Cash*, is that right Bill?

[0:00:51.2] BH: Correct, that's the name of the book, *Creative Cash.*

[0:00:53.8] WS: Awesome, well, I'm looking forward to hearing more about the book but I want us to be able to dive in to obviously, some creative financing techniques that maybe you share in the book or some ways that you can help the listeners think outside the box a little bit, right?

It's a big part of this business is being creative and being able to make a deal work and hopefully, it's conservative deals, all those things, right? But there's so many different ways to make it happen. Give us a little more about who you are Bill, maybe your background, your focus right now and let's jump into some of the creative financing things that we should be thinking about that you're going to help the listeners with?

[0:01:26.6] BH: Absolutely. I've been in real estate for 16 years. I started in houses, flipping single-families. My very first deal is a duplex, I was a pilot by trade, backing all the way up. I was flying airplanes, started to study in real estate in '04, '03, '04, I closed my first deal in '05, which was a duplex. I had saved up $10,000 and the duplex is cash flow and 300 bucks and that's what I walked away from my aviation career with and just went into real estate full-time, for better or for worse.

I started flipping houses for a few years and then got into multi-family and then started growing my multi-family portfolio, larger and larger, started off with some small ones and got bigger and bigger. Did my first 400 units with some form of creative financing and my first syndicated deal was 152-units, but I actually go seller financing on the deal.

Quick background on that, my partner and I went in and we had to put down 25% or 25% loan to value and the 25% allowed the seller to clear their debt. They had a Fannie Mae mortgage I believe, and so they didn't have much of it left, developed it for a long time, we were able to clear that primary loan.

They then originated a two-year seller financing with my partner and I, we brought on our limited partner investors and sort of combined a syndication with seller financing or syndicated a seller financing deal and that was my first soiree in the larger commercial assets and I've been here ever since.

[0:02:58.3] WS: Nice. Would you go into the detail or just a little more about that as far as – I know you said you syndicated that deal so you have investors on that deal or limited partners, but then there's also a dynamic, the seller financing, could you explain a little more of the details there? Was there issues with the limited partners or anybody have concerns about that, or how did that work a little bit?

[0:03:19.9] BH: The backstory of how we actually got into that deal, my partner and I got into that deal was that the seller had a problem and that's one of my big focus is and that's one of my big subjects in the book is how to look at deals and how to analyze the deals in very specific ways so that you see what other people don't see. It's by using this lens of creativity that we can look at a deal, dissect the deal, dissect the seller and say, "What's really the motivation here, what's going on?" And can we create an offer that is a problem-solving offer?

That's the number one way we're going to get creative financing is when a seller has an issue that we can come in and solve. Well, this particular deal, the seller had leased out too many of the units to this one sort of facility that the behavioral facility had leased out a bunch of units from the property and put some of their patients in there. What happened was all the lenders didn't like that and they said, do you have to –

It's called a concentrated economic driver and they said, "You've got too much concentration to this one company." I think we were at something absurd like 22%, you know, and Fannie and Freddie will get itchy after about 10%. We were way over that and so, debt was really hard to come by, we're also in sort of a post-recession market in middle Georgia, that area hadn't really recovered as far as values and attention to real estate so there was a lot of aspects to make the deal "hairy" if you want to call it that.

The seller was having trouble getting anybody to actually close the deal and that's when I came and saw the issue, saw that the real estate was actually good real estate and the numbers work and the business was solid, it was the seller that actually had the issue and I can create a solution for that seller and that's basically how we got into the deal.

[0:05:03.3] WS: Then mention again what you did there, what did the seller finance say, what part of the deal was the seller financing, how did you make that work for both of you so the seller was onboard with that?

[0:05:13.5] BH: Yeah, it's what I really talk a lot about the book and I teach a lot of my students is to give on price and take on terms. When you're going into a creative deal, whether it's a master lease option or seller financing or any of the types of creative financing that I teach here in the book, it's about really understanding the seller is probably going to be more sensitive about price but not nearly as sensitive about the terms such as interest rate, maybe down payment, interest-only window, things of this nature.

This deal basically broke down to 75% loan to value, we had to put out in 25% but what we did was to be able to go in there and defer a certain amount of those first payments that you accrued to the back end — but we didn't actually have to straddle the property with debt from a cash flow. We were able to defer, I believe it was like six months worth of payments in the beginning.

We were, had a lot of cash flow that we were able to go in and use that money to then stabilize and turn around the operations as we lowered the tenant base. We basically, literally, had to get rid of cash paying tenants. You can go figure, right? That's what we had to do. We did that and we released those units to regular street tenants and the normal market rate tenant and at that point in time, within the two year window, we stabilized the asset. We were able to refinance into a long-term Fannie Mae loan and happy ever after, basically.

[0:06:40.7] WS: Good deal. Ultimately, he needed the 25% down to get out of his debt like you were talking about but then he financed the deal for you as the seller and then, but your terms is what helped you a lot because you said, "Okay, I'll pay you these price," because that's what he's stuck on, just like you said, so many sellers, they like that number, however, there's other ways to make it better for yourself and sounds like you made that happen.

What other examples or how else would you help the listener think through right now, some creative financing options or to creative cash options, right? Maybe we wouldn't normally think that you've seen people take deals down with?

[0:07:18.4] BH: Yeah, there's lots of techniques out there and lots of ways to combine certain techniques. The two major ones and the ones that I cover the most are seller financing and master lease options. If you're in a single-family market, it's just a lease option. We call it master lease option when you start covering multiple units at one point in time.

Those are two of my favorite techniques. They have not had a lot of traction and not a lot of use over the last five or six years. Simply because sellers have not had that many problems. If a seller had a problem, they could probably just take that property and put it in the market, they're going to get asking price, we all know over the last year or two, they're probably going to get more than asking price.

That tide has kind of floated all of those problems both. Well, what I'm predicting is that we're at the top of the market cycle, we're going to go down here soon, maybe not a crash, I don't believe we're headed into a full meltdown, so to speak, but I do believe we're going to have a pullback, one of the big areas we're going to have a pullback in is debt.

We're already seeing that, all right? We're seeing lenders start to tighten up, we're seeing Fannie and Freddie at t his point in time, making us have the one year's worth of principle interest, taxes, insurance, this is difficult and it's making deals much harder to fund. That's where we're going to see the advent of creative financing.

I'm predicting over the next year or two years is where this subject is going to become very popular because this is going to be how you're going to have to deal with a distressed asset or a value add asset when those lenders may not be there to fund it. I always kind of make the joke on when the market's going up, we call it a distressed asset or something that needs work or renovation, we call that value add.

When the market is on the other side, we call it a distressed asset, same property with the same repairs, right? We have a nice name for it and got a bad name for it. Well, we're moving into the distressed asset market and that term comes about because it's lenders. We'll start labeling these as distressed assets and no longer value add and that's the excuse they'll give you for not funding or for giving you very low to value — very low loan to value.

That's what we'll use creative financing for. Now, a specific technique for your listeners, one of the big techniques that I use is what I call the SPY technique and this is something that I created and SPY, stands for Seller, Property, You. That is the order in which you're going to want to analyze a deal. Most people make a mistake, the biggest mistake that those people make, when kind of analyze and looking a creative financing, is to sit down and decide what is good for them the buyer or the investor.

What's good for me, then I'm going to look at the property and I'm going to say, "Okay, maybe there's something wrong with the property and then lastly, I'm going to think of the seller." That's a mistake. You've got to reverse the order and that's why I created the acronym SPY to remind you, start with the seller and the seller's problem, make sure your offer solves that part, then move to the property and see what the property wants. All right, now craft your offer to create something that may solve the deferred maintenance, low occupancy. The list can go on and on.

Then lastly, the offer needs to solve your problem. You are the least important in the equation and that's the biggest step I think I can give listeners is follow that technique and you will increase the probability of getting deals done through creative financing tenfold, easy.

[0:10:35.8] WS: Okay, no. Great information and let's talk about those two options are just a little bit, a little more detail, the seller financing and master lease option. On the seller financing and obviously, I like the SPY technique you're talking about seller, property, you and really thinking through, it's going to help you to craft your offer or craft your deal and let's talk about that a little bit on the seller financing.

Tell us any techniques about approaching that conversation with the seller. I know that can be intimidating at first, right? How do I approach them and not seem needy but it also, it's solving a problem for them also, right? You know, give us some techniques about that?

[0:11:11.1] BH: Yeah, sure, I would even broaden the go club to include realtors because a lot of our deals, especially in the commercial space, especially in larger multi-family properties are all going to come from realtors so we can't exclude that aspect of it. I go through an entire chapter on just how to work with realtors but how do we make offers to realtors, which is slightly different than how we would make an offer if we're talking directly to a seller.

To answer your question specifically, Whitney, I would say, if you're talking directly to a seller, make one offer at a time. That's a big mistake I see people make is they sit down and they say, "I'm going to" – I've seen people even teach this and it's a terrible technique. "I'm going to come up with three offers, here is a cash offer and then that's really low and then here's the seller financing offer and then here's maybe a bank offer, here's all three offers and I'm going to put them all on the table. You choose one."

Okay, first of all, that's terrible negotiation technique. Number one, number two, you're likely to give the seller choice fatigue. They're going to get too many choices, they don't' know, so don't do that. If you're working with a seller, if you're working with anybody, a realtor or anybody basically, when you go to make an offer, take the offer that is the best offer for you, submit that offer.

If they don't like that or they negotiate parts of that offer, then you begrudgingly fall back to that second offer and then lastly, you fall back to the third offer. Never lay all three offers in the table at once because then, what if they just looked at you and say no?

Where are you going from there, you know, now, you put all the cards on the table, they just went, "Nah, you got to do better," now you're renegotiating against yourself, one offer at a time, that's really important, I see a lot of people make that mistake.

If you're working with a realtor then my tip to approach the conversation, number one, two points. Number one, never ask for seller financing or creative financing. Always ask the question, "How do you find the creative financing deal?" You don't.

You don't go around asking realtors for seller financing deals or credit financing deals because you look like you have no money and you can't close and realtors are not going to appreciate that. You just look at deals. You just analyze deals like you do any day of the week.

If a deal doesn't work for whatever reason, then we pull it out and say, "Okay, do we have any creative financing tricks that will fix this?" If the answer is yes, the lease option or seller financing is sometimes that will fix it. Then you go to the realtor and you say, "Okay, listen. We have a problem."

That's where you kind of explain to the realtor, the situation may be it's a low debt service ratio, that's a common one, things like that. For whatever reason, we can't go over to the bank and get a traditional loans so you have a problem realtor, your seller has a problem and here is the offer that I believe will solve that problem, what do you think?

Always end it with that one. Never just haul off and submit a creative offer to the realtor because I always tell people that you can get the messenger killed. Remember, a realtor has a fiduciary responsibility to turn your offer in, have no responsibility to recommend the offer, right?

You need this realtor to recommend the offer to be your champion with it. Best thing to do there is to get the realtor's buy in on helping you create the offer, so that's why I always end it with, "Hey, what do you think about this?" And then really get that realtor on board with you.

[0:14:16.7] WS: I like that a lot.

[0:14:16.9] BH: Those are the right fit for the two sellers and realtors, yup.

[0:14:20.5] WS: Yeah, no doubt about it. You need that broker realtor to like you and your offer, right? I like how you said, they do have to show it but they don't have to recommend it or even speak highly of it, right?

On the seller financing, I like how you mentioned some great points there. You mentioned like choice fatigue, I don't know if I've heard it called that before but great and never laying all your offers on the table at one time, right?

[0:14:43.8] BH: Yeah, decisions fatigue or choice fatigue.

[0:14:44.7] WS: It's so smart, yeah, decisions too. Yeah, choices.

[0:14:49.3] BH: Yeah. Right, yeah.

[0:14:48.2] WS: Yeah, and never asked the realtor for seller financing deals. What does that tell them? Well, most of the time, it is going to tell them that you don't have the capital or you can't. They're going to think you can't close potentially or you're not, you know, the top on their list as somebody that can close but I wanted to also get into the master lease option a little bit. It is something that we haven't talked about much on the show because I feel like you said.

It is something that people are trying to do a few years back more so or you know, five years ago but not so much lately and maybe there are and we just don't hear about it as much but –

[0:15:19.5] BH: There is not a lot of material out there. Well, besides the book that I am putting out now, there is not a ton of places that you can go and get creative financing education.

[0:15:27.7] WS: Yeah, I've only heard of like one mentor who pushes this method, or coach, you know in this industry that accomplishes this method but in case the listeners never heard of that option, I'd like for them to at least be aware of it and so hey, maybe this is something I could use here and then they could do more research but what is that? Could you just layout maybe an example.

[0:15:47.8] BH: Sure, 10,000-foot view. Basically, a master lease option is two contracts, two separate contracts. One gives us the right to rent the property – well, one gives us the ability to rent the property with the right to sublet to tenants. Basically, when you've got a 100-unit apartment complex, I am going to rent that complex from you with the right to lease the units out to other tenants. That basically functionally makes me the owner in charge, so to speak, but it is still in your name.

Then a separate contract is an option to purchase and what I'm going to do with that contract is to set a price that you and I agreed on today and then we, you and I, are going to agree on the amount of time, the option period in which I have to actually purchase the property. What I've done now is — I've controlled the operations of the property with my lease and that also controls the cash flow, okay? Then I've controlled the future sale of the property with my option to purchase.

The idea is that you would want to kind of get something that can be renovated or the values can be brought up. Let's say you and I agree on an option price of one million dollars and I have three years in which to purchase the property for one million dollars. Well hopefully, I can get the value of the property well up over a million dollars within those three years and then execute a purchase and I am buying it back with that million dollars.

It is kind of the idea of doing a lease option but the seller really has to have some sort of motivation to do it. Again, remember, if somebody can just haul up and sell that property if it's cash flow and if it is pretty and if it is making money, probably not the strongest scenario for creative financing.

[0:17:28.7] WS: They are going to have to be motivated in some way, right? I know some people say, "Well, you know it's beneficial to them because I am going to improve the property and I am going to raise the rents and NOI, all those types of things so it is going to be more valuable," so even if I can't purchase it, they are getting a better deal. Somehow, you have to show them you can perform I think, right? I mean like why would they do this with you unless they are just on their last straw for needing help?

[0:17:51.0] BH: You know that is actually a great syndication question in general because I teach syndication and I have a lot of students and I do a lot of them myself and it's the number one objection when any person is new to real estate especially new to syndicating a deal. "Why should I do this with you? You've never done it before," and that is a broad objection that covers, like you said, almost raising money in any aspect of education.

That is the only answer I can give you is education leads to experience. You know, if eluded partner or a seller or someone you're trying to do business with comes to you and says, "You've never done this before, why you?" you had – two things. Look them right in the eye and say, "You know what? You're right. I've never done this before." I do not suggest you try and fake it until you make it. It is very easy to catch people faking things in this business.

The best thing you can do is just be brutally honest and say, "You know, you're absolutely right. I'm a complete amateur" but that's where you better be able to speak about your education, your mentors, your program that you're signed up with, whoever you're working with, with a team exactly and that's where you need to shift that conversation over to your education because I always ask the question, look, if you have no experience and no education in the business, why should they do business with you? They shouldn't.

[0:19:02.9] WS: That's right.

[0:19:03.4] BH: And they won't. Nobody knows the same person would anyway, right?

[0:19:07.2] WS: That's right and just on this for another few seconds here. The master lease option, how many attorneys are going to be familiar with that option would you say?

[0:19:15.0] BH: Great question. Some, but not most, and that is a part of the book I really talked about is how to go out and find attorneys that have experience because if you get an inexperienced attorney, I mean not an inexperienced. You just saying inexperienced in lease options but they are probably likely just start telling you it can't be done and they're going to put out more roadblocks than they were. I've seen attorneys probably kill more deals than I can count. I love my attorneys, don't get me wrong, but they will kill a deal or something quick.

[0:19:41.9] WS: Yeah, they're special. I mean it is just like hiring the brain surgeon for your knee operation, right? They have specialties for a reason, so I know that's great. Well Bill, what's been the hardest part of this syndication business for you?

[0:19:55.4] BH: Building a network I think is probably have been one of the biggest aspects. It's one of the main reasons that I got into teaching early on. I love teaching, I love real estate but I learned early on that coaching gave me a way to kind of network one to many and so I think building a network of investors has probably one of the biggest struggles. It just takes a lot of repetition, a lot of follow-up, a lot of exposure, a lot of content creation if you're going to go out there on the web.

Doing things like you're doing, bringing content with podcast and things of that nature. I am not very good at social media so between the building the network and not being great at social media that is probably have been the two of my largest challenges.

[0:20:32.8] WS: Is there a way that you overcame that, whether the networking piece or social media?

[0:20:38.4] BH: Yeah, hire really smart people and get out of their way. That's what I've done largely, it's just work with really intelligent people and be a good leader, not trying to wear all the hats. It's going to cost you money, it is an investment. You got to understand you're going to spend money on these things but that's about all. Now that the COO of Broadwell Property Group, so I have partnered up with somebody here and really surrounding yourself with a great team and great people is the biggest thing I can tell you to do.

[0:21:03.3] WS: How do you prepare for another downturn? You know, as an operator or maybe as you're advising clients as well, you know, how do you prepare for a downturn?

[0:21:12.7] BH: Yeah, I think now especially in the syndication aspects, now is the time to really be doubling down on relationships. We know that at the moment, deals are a little bit hard to come by, prices have been a little bit elevated. I believe that that's going to shift. I also believe that's going to shift heavily in the C-space going forward and so what I suggest is that if you are struggling to find deals right now, really focus a lot of your time and energy on networking and team building.

Get out there and really build that database and that of investors and then spend a lot of time doing that right now. Therefore, when the market does hit the bottom or a heavy downturn and it is time to buy, you don't lose momentum and market cycle ramping up your team and so you can take you a year or two to get together a good group of LP's and general partners and you know, in a year or two of missing a market can really put you into a whole other market cycle. I say really focus on the investor relationships right now.

[0:22:06.9] WS: It doesn't happen overnight that's for sure. Yeah, in one to two years, I think that is a good ballpark. Any predictions for the next six to 12 months in the real estate market and are you all buying and selling? What's your plan?

[0:22:17.5] BH: We're looking to buy but I have – our company's having a flight equality so I am predicting number one for us at Broadwell Property Group, we are really looking to syndicate better assets B, B-plus type assets right now with a longer term hold and window. Not really trying to do a lot of heavy value add, not trying to do a lot of the deals that the going in cap rate is very low but the only way to decompress the cap rate is by just raising the rents.

I see that model a little too much lately, so my predictions going forward over the next year would be careful about aging assets. Something I talk a lot about, what I call the CapEx tsunami. I believe that we have some failing infrastructure and a lot of older buildings, so my prediction over the next two to three years is be careful about 60s and 70s built products — because the prices are too high and the infrastructure may cost you a lot.

Be careful about over-renovating assets right now. If you are looking at the rent rates model, what I would suggest over the next year to a year and a half is just try and if you believe the rents are truly below market, just try and raise the rents organically. Don't renovate the unit right now because what I have found from 15 years of operation in several market cycles is that when we're in a downturn, tenants find more value in the affordability of the unit than granite countertops and move-in closets and whatever.

I think you may not want to over-renovate units right now because you might not quite get that rent month you're looking for. That is from an operator, those are my tips at the moment.

[0:23:44.6] WS: Awesome. Well, Bill, do you have any daily habits that you are disciplined about that have helped you achieved success?

[0:23:51.6] BH: Yeah, you know I do actually. I read a lot, number one, but two cups of coffee and the Wall Street Journal every morning guaranteed, every single morning. I read only half the paper on Saturday so I can save the other half on Sunday but two cups of coffee and the Wall Street Journal every single morning. You know, it keeps you abreast of all kinds of market trends and global trends and things that are going on and if you're a syndicator, if you are out raising money and you're working with investors, you always want to be able to have a conversation besides the weather.

I hate it when two people get together and they have nothing to talk about but the blasted weather. You know read the newspaper. There is so many things you can discuss. I can talk to almost anybody and have some kind of global conversation because I read the paper but the *Wall Street Journal* specifically. Yeah, that's helped me out tremendously, two cups of coffee and *Wall Street Journal* every morning.

[0:24:35.7] WS: What's your best source for meeting new investors right now?

[0:24:39.2] BH: Well, that's a tough one, probably doing things like this actually. Being on podcasts, going out and trying to create content is one of the reasons that I wrote the book besides giving back and teaching. You know books are not giant moneymakers by any stretch of the imagination but I always joke there the 200-page business cards. I would say content creation is probably one of the best things that you can do right now as far as networking and getting your name out there especially since we're kind of in the late stages of COVID thing here.

Still, people are not having a lot of social events at in-person, I think content creation is your best bet right now.

[0:25:16.2] WS: What's the number one thing that's contributed to your success?

[0:25:19.8] BH: Creativity, yeah learning how to solve problems and problem solving, yep. It's good to start off with money, it's better to start off broke. You know, if you start off with nothing, you only got one way to go and all you can do is use your brain to solve problems and that is where I started with. I started with nothing and you know, I had to quit the job, no experience, no money so I really had no choice. It was figure it out or go home and I think that gave me the sense of creativity to do what I do now but yeah, solve problems and solving –

[0:25:47.6] WS: Yeah, they're skillsets that are learned that way that just helped you do the rest of your life, you know, especially in your business, right? How do you like to give back?

[0:25:56.4] BH: I teach well up until COVID was locked down. I was doing a one month meet-up group every month where I go in and give about an hour, an hour and a half lecture to anybody who would come and listen. I have written for other real groups in the past. Teaching, I love teaching, doing things just like what we're doing right here right now. Just sort of giving back for the education. When somebody is asking questions, I am always willing to give them a 100% of my answer.

Without any sort of sales pitch or hook, you know I will answer any question that anybody has as honestly as I can.

[0:26:25.9] WS: Awesome, Bill. It has been a pleasure to get to know you a little better. I know we've met at conferences in the past and whatnot but great to get to know your story a little better and your skillset, which is a great one by the one to have. You definitely hone these skills, know you're helping a lot of other people do the same because we need to have these things in our tool belt and understand some different options that may be available to us to make a deal happen.

Help a seller and help us as well, so thank you for sharing those things and just different techniques and in your book but tell the listeners how they can get in touch with you and learn more about you and your book?

[0:26:58.9] BH: All right, well it is broadwellpropertygroup.com that's our website if you want to talk to us about investing or doing business with us, broadwellpropertygroup.com and then email is bill@gobroadwell. You can just email me at bill@gobroadwell.com and those are the two best ways to get in touch with me. If you'd got any questions, I love to answer them. If you want to do business with us, send us an email and we'd love to talk to you.

[0:27:21.3] WS: Awesome, that's a wrap Bill. Thank you very much.

[0:27:24.5] BH: Excellent man, good deal.

[END OF INTERVIEW]

[0:27:26.3] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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