

EPISODE 869

[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 Brad Shepherd. Thanks for being on the show, Brad.

[0:00:32.1] BS: Thank you so much, Whitney. It's such a pleasure to be here. I've been listening to your show for a couple of years and learned so much and been introduced to so many great people here, so incredible privilege to be here.

[0:00:41.7] WS: Thank you. I appreciate you being a listener and, on that note, I always want to thank the listeners also that are here with us today and every day, so grateful for you and your time. I hope that you are gaining a tremendous value from the show.

A little about Brad; he earned his undergraduate degree in finance with an eye towards commercial real estate. Interning with one of the premier commercial property portfolio companies in the northwest.

He purchased his first rental property within months of graduating college, congratulations by the way, and quickly added several more before turning to commercial opportunities. His experience includes management of hotel, vacation properties, retail, café operations, as well as development of retail and hospitality space and raising capital from both domestic and international investors.

Brad, again, welcome to the show. I'm looking forward to getting into just your story a little bit, learning more about you, and then you helping the listeners and myself to learn how you've been successful in this business and raising capital. Maybe we can talk about that domestic and interested investors a little bit but give us a little – a few of those details building up to where you're at now in commercial real estate?

[0:01:48.9] BS: Sure. Yeah, for some reason, I don't know whether it was somewhere in high school, I guess I got this idea that real estate was the way to go. Probably read some quote about, "Every millionaire has real estate in their portfolio," that just put the bug in my ear.

I went down the finance path in college, I always – my intention was to go into commercial real estate that internship that I did was with a company that own several skyscrapers, they were developing malls so I learned a ton there that was really fun.

Post-graduation, my life just took me to da different direction but real estate was always in the mix there so I started building up my own little rental portfolio and the smaller company I was with, we started picking up some cool little historical houses and some vacation areas. Running them as family rentals. This is pre-Airbnb, I think at the very end, we were using – starting to use VRBO. Just really trying to having a good time with that.

Then we also have the opportunity there with some unique property, we got some land and a really cool spot, so we decided to develop that. That's where we built this cool three-story building, it was a retail store on the main level, hotel rooms on the top and an art gallery on the bottom. I just had a great time with that while we continue to build up those vacation rentals.

Then, when I came to Texas about 10 years ago, started to get it into some of the more active single-family type of activities. Again, trying to build up my own rental portfolio by doing some fix and flips, wholesaled a couple of pieces of properties, a couple of pieces of land as well. Still operating some of those rentals today with all the bumps and bruises that come along with that path.

Have done well on some, painful lessons learned on others, I've done it here in Texas. I had my worst deal was a flip that I was working on in Pennsylvania, so a long-distance flip was another big lesson learned. All that led me to the last three years really just focusing on commercial multi-family. Came back to this – the commercial world and I realized “Oh yeah, this is really where I want to be,” and have found the sweet spot for me in real estate in the commercial space.

[0:03:57.2] WS: Nice. Most people have some other type of way or road, a path to getting to commercial real estate in the syndication business. Very few just starting in large multi-family or commercial real estate. No, grateful for you shedding some light there on just your path and then, maybe you could talk to, I know you talked before the show a little bit about some single-family units you still have and some issues there to compare it to a syndication and are large multi-family and I'd love to get into some other details about just raising money and different things like that.

I thought you could shed some light to the single-family versus multi-family through this pandemic.

[0:04:35.4] BS: Right. I got enticed by this idea of fix and flips and buying property sub-two, so I did that, wanted to experience it and wanted to learn those methods as well. Have held on to, I haven't bought a single-family property for almost three years now. All of my portfolio now is in Texas, mostly in San Antonio and one town north of – north of Austin.

Some have done okay through the pandemic, others not so much. I've got two duplexes side by side in a cool little area in San Antonio, but it's up and coming so kind of a C-minus type of a neighborhood and as soon as the pandemic hit, one tenant stopped paying. Next month, another stopped paying, the next month, another stop paying and finally about two months ago, the last tenant out of those two duplexes stopped paying.

[0:05:24.9] WS: Almost like they were talking about that, right?

[0:05:27.2] BS: Right, exactly. It was almost as if they shared a piece of paper among each other. “Hey, all you have to do is sign this little CDC paper and you don't have to pay anymore.”

Painful, I've got four units there doing nothing. Meanwhile, it's close to a Salvation Army, we're getting a ton of squatters in the back, there's a pretty big lot behind the house dumping trash back there.

I'm getting code violation notices from the city to come clean up the garbage, to get these squatters out of there. Meanwhile, I'm earning nothing on it. My property manager, he has been nice about not taking fees during this time. I've got that on one side and on the other side, I'm getting my statements and monthly updates from these commercial syndications that I'm a part of and they just show up, like clockwork.

Of course, there's been some impact, there's been more people walking away from leases but it's on such a different scale that you don't even feel it — but distributions have continued to do well. The statements are exactly what I was hoping for going in. I had a couple of properties where we paused the distributions but all but one of them have been made up at this point.

I'm seeing those two scenarios play out on each side of me in real time right now and incredibly grateful for the investments on the commercial side while I'm suffering through the investments on the single-family side.

[0:06:54.4] WS: No, I just thought it was a great point to make. I mean, it's really the difference in being 50 percent or, in your case, I mean, 100 percent delinquent versus 10 or 15 percent worst case, right? The economies of scale, so important and you know, when you can get into larger deals.

I wanted to jump in to your – just raising capital, you know, that ability, how you got started in that a little bit, then help us to get to the point to where you're at now or for the listener to see that path so they can do the same thing.

[0:07:24.9] BS: Sure. Having learned all those lessons like many people in the last several years, we started hearing more about commercial multi-family, commercial opportunities. My first exposure was through an opportunity to invest in one as a passive investor and started looking at that and thinking, "All right, I think that makes more sense to me. That might fit better with me and my style"

I first started as a passive investor, really wanted to see how that would go and experience that and I'm really glad I did, learned a lot just from what I was receiving from the operator there. Then from there, started getting the idea that "Hey, okay, I want to go on the operator side" Start finding these opportunities for myself. I could bring together a pool of investors to do this.

I started going to various meet-ups here in town, went to a couple of boot camp down in Houston, trying to just learn the multi-family space, started – got a script to start reaching out to brokers, that whole bit and realized, "Boy, this is some stiff competition and some really smart people and their teams."

This is definitely not a lone-wolf activity by any means, I have been used to operating as a lone-wolf. This is a team sport. As I started looking in that landscape, trying to figure out where could I play in, I happen to meet a few folks here in town where we had this opportunity to team up and function more — focus really on the capital raising side to work with operators who are already successful in this world.

Started learning more about that, getting to know this team, we put together some opportunities or some operators that were doing well, many of our folks, the listeners have heard of these operators and had an opportunity to really just link arms with them, join forces, I get to be – coming to their ecosystem without competing with them but now just really learn from them, contribute something very meaningful. Okay, perfect.

No more picking out tiles, no more picking out paint, no more dealing with contractors or toilets and tenants. I just get to come in and work with sophisticated operators, successful operators and sophisticated investors who are interested in playing in real estate, placing money in real estate, perfect, sweet spot. I can do that all night long, that's what I've been focused on for the last three years and has been incredibly fun.

[0:09:44.8] WS: Nice, numerous there that you learned that, you know. I hope the listeners listening to and is learning or has learned as well, you know, you went to meet-ups, boot camps, you found a script so you could start talking to brokers, all those things and you realized the

level of competition in this industry but you know, then you said, it's a team sport and no doubt about it.

Then you found, it sounds like you found like that unique ability that you had or that thing that you wanted to be really good at and focused on that and that's the investor piece or capital raising that side. Tell us a little bit about like from there forward, were there team members that were added and more of their unique – what was their unique abilities or is there different things that you learn to help you jumpstart the investor side of the business?

[0:10:33.8] BS: Right, it was really helpful to work with a team, even just focused on the capital side. Because you know, the operators want to make sure that they're working with a team who can bring significant dollars to the table. They don't want to have a ton of relationships that they have to account for bringing in piece-meal investors.

We want to make sure we were able to bring in sizable dollars. We have grown our team to be able to bring and have some significant conversations to be able to raise tens and 20s and 30 million of dollars for each property, it really can satisfy an operator's entire need if they want it to that level.

It's been really, an interesting journey. We were trying – we've always tried to be very compliant and play above board and have everything on, all the lines dotted, T's crossed to make sure we were doing it in a compliant manner and then you know, lots of people got letters last year from the SCC making sure, wanting to look into your operations. We took a pause, we just want to make sure, "Okay, let's just pull back here a little bit." We think we're doing it well, we've always had been advised by attorneys.

Really, that kind of shifted our focus and made it more of a critical element to make sure we're doing this in the best way possible. We spent last year re-evaluating and then at the end of the year, getting some securities licenses to then affiliate with broker-dealer relationship and now, all those elements are taken care of and 2021, looking through, shaping up to be a fantastic year.

2020 was a learning, a reset, refocus, timed-up well with the pandemic where so much more was influx last year but 2021 shaping out to be a fantastic year already.

[0:12:24.2] WS: Yeah, I'd like to shed a little light there for the listener, as far as like you mentioned, you know you are operating in a way the best way possible. You're contacting attorneys, all those things, we did the same thing and you mentioned a lot of people were contacted by the SCC or you know, different ways or a lot of people were investigating you over this past year, a lot of listeners may not know that.

I am aware with many of the situations, you know, thank the Lord, we were not contacted but we were also prepared in a big way and try to not operate. I mean personally, no grey area whatsoever. Through all that to say, would you just shed a little light on what was being investigated, obviously no names, anything like that but why was that an issue there, what caused any of that, can you just shed some light there for the listener?

[0:13:13.2] BS: Really, the idea is, it comes down to the compensation and how capital raisers are putting themselves out there to potential investors. A lot of that boils down to how those capital raisers, how the capital raisers are compensated if it's a percentage of funds raised, you're doing a broker-dealer capacity, you're functioning as a broker without being licensed — the SCC gets really grumpy about that.

There's different ways that some people were trying to get around that or deal with that with — not get around it but deal with it with operators but it really comes down to that compensation focus. We decided okay, "Well we can go and just become brokers." Actually, get the licenses and then just take that concern off the table, that's how we decided to resolve that.

[0:14:00.1] WS: Nice, no doubt about it. We've done lots of shows, I would encourage the listener, if you have not heard those shows, I've done with numerous attorneys. Just about this topic, you need to go back and educate yourself if you're not familiar with that and you're thinking you're going to go raise capital from investors, some crucial things there that you need to know about pre-existing relationships and documenting those things so you know exactly where this money is coming from but, even more importantly, like Brad was talking about, how you're paid to work with an operator.

If your investor relations is your piece, well, that's fine. You need to be involved in the deal in some other capacity and you can't be paid based on what you're raising, that was – it raised a massive red flag over this last year for so many operators and put a big scare in the industry, that's for sure and a lot of people.

I can see why someone like Brad would go the extra mile. Now, just to get this license so there's no question. Would you explain that a little bit Brad? Why would you get this license, what is this license, I know others who have done it as well but what does this do for you?

[0:15:01.0] BS: Well one, it really satisfies that compensation concern. Now, I can put myself out there. Yes, I am representing a security. Passive investors is going to come in and put their money into an investment where there is an expectation of profit driven by their efforts of somebody else. That's a security and so becoming licensed as a broker means now I can represent that security to potential investors. I had to do some work to find a broker-dealer that would sponsor us.

They are going to take on the responsibility of making sure we're doing everything in a compliant manner. I mean that is checking our email, that is checking our LinkedIn post, you have to make sure all of that is buttoned up and information presented in a compliant way. First, I had to find that the broker-dealer willing with the ability to take us on and oversee our operations and then from there, it's tests. Test, test and more tests.

There is a standard exam that everybody, it doesn't matter if you are going to go sell mutual funds or stocks or syndications. You start with a test called SIE. You got to pass that first, it is way more detailed than you have ever need to know in the real estate world but you have to pass it as the initial hurdle and then for a specific to syndications, there are two more tests beyond that. One is primarily about private placements, the other one I about state regulations.

You go deep, you go deep into these topics to make sure that you're being able to speak to potential investors in an educated way without putting yourself out there as we saw this just recently in this month of deal raiser, capital raiser who was guaranteeing returns saying there is no risk of loss, right? Okay, that's I mean there is no way we should ever say that because it's

just not true and of course, you are going to get busted. It really just learned a ton as far as making sure we're putting information out there in a very correct and compliant manner.

[0:16:58.6] WS: No doubt about it, yeah. I appreciate you just shedding some light there. I think listeners need to be aware of some of those things that are happening in the industry just so they know as you are getting in this business, you need to understand. You got to do some research here, make sure that you're legal. I mean we talk to so many attorneys and it's amazing the different opinions about this topic alone that you'll hear from different people.

I just personally don't want to operate in any grey area either and it sounds like you don't either Brad, you know to go to this extent to get this license. Are there one or two tips or crucial things that you could share that helped you in increasing your ability to raise capital?

[0:17:39.6] BS: Yeah, so all along the way you know I do general operate as the loan wealth of specific particularly on the single-family side that just operate independently. That is just how I function but all along the way, develop good relationships with other people more successful than me and that can be other real estate investors or that key people who have done well in their own businesses, that are on W2 jobs, service professionals, what have you.

Always looking for opportunities to meet people who have done well in whatever endeavor they have done. That can be real estate meet-ups or even better, that could be other networking opportunities whether it's church, rotary clubs, chambers of commerce. I have enjoyed frequenting those and getting to know people in those locations. When my focus shifted to raising funds three years ago, I've got this network —

This rolodex of people that I've had good relationships with, they know I've always been involved in real estate. I've always made sure that is out there. They know that this is an area that I enjoy and so then I could go back to them and say, "Hey, I've learned some really — I've got this opportunity where you can actually be involved now. We can work together on this or I'll be your main point of contact." One is just always looking for opportunities to network.

The real estate meet-ups might be good but there might be other places that are better as far as finding individuals who were successful and want to place dollars in real estate investments and

then the second thing for me it's I won't say throwing spaghetti on the wall to see what sticks but I've learned a lot from looking at various different avenues in real estate. My personality, I had to learn what fit with me and my style. I think that's the second thing, try it out.

There are so many different ways to be successful in real estate even in the commercial multi-family space. You don't have to be the operator, you can find other ways to be – you might, many of your listeners will want to be the operator and they are going to be successful there. For those who have a different style, different angle, different interest there are other ways that they can be involved as well and still be very successful.

[0:19:49.8] WS: Brad, you know partnering with operators and looking at lots of different deals, how do you like to see someone to be prepared for a downturn?

[0:19:59.4] BS: Yeah, well, 2020 certainly highlighted that and not that we really had a major downturn but we all kind of stopped and paused and wondering like, "Is this it?" It definitely slowed down and changed some things. As far as the underwriting goes, we wanted that to be legitimately conservative, right? Make sure these numbers are accurate. We are not shooting for the stars here and our projections were not over promising to the potential investors.

I think we've done a really good job of that with our operators and our investor partners in putting out realistic expectations of not necessarily worst case scenarios but it's just where we should be assuming the world doesn't blow up or we just have a major collapsed but then we have the opportunity to exceed expectations and then people really, really happy. Very authentically conservative, not just thinking it's conservative but authentically conservative underwriting.

It then allows us to tell a very conservative story to the potential investors and become – get them excited when they see the actual returns coming through.

[0:21:06.3] WS: On that same note, you know any predictions do you have over the next six to 12 months? Are you all buying, selling? What's your plan moving forward for this next year?

[0:21:17.4] BS: Yeah, boy, I turn to you and your podcast and your amazing guest for those predictions but I think 2021 is really going to be a good year. I mean we are coming in under a different administration — so who knows the way that might affect some tax laws, some taxes, 1031's people are concerned about that. Who knows? A lot of questions right now at the beginning of the year but we're in an amazing country, we have an amazing economy.

The fundamentals are going to be the same. People need a place to live. We are buying in places they're not in the middle of a city where people are leaving but we're out there in the suburbs where people want to be, where they're heading right now. We are actively buying right — basically December of 2020, we turned it on like all right, we're ready to go. I think this is going to be a strong year, much stronger than what we saw in 2020. This is particularly for us and our group.

[0:22:10.3] WS: Brad, do you have any daily habits that you are disciplined about that have helped you achieve success?

[0:22:16.0] BS: Pre-kids I was a big reader. I have a four-year-old and an 18-month-old so that definitely changed habits. Reading has turned into audio books and podcasts, so definitely making sure I am absorbing some new information every day. Audio format has worked well for that because I can do that in between meetings or driving around or whatnot or finding time to actually sit down with a book is much more challenging but it was maybe three or four years ago I got introduced to *Miracle Morning*. The book by Hal Elrod.

I'm sure many of your listeners are familiar with that, starting the morning early to be able to have some personal time to study, to write some notes, to plan and strategize, exercise a little bit and particularly with kids, I find on the mornings where I don't do that. If my little four-year-old is the one waking me up, we have a grumpy morning, so I had to make sure I get up before them, have that personal time and doing that just changes the day and make sure I am ready and prepared for whatever the day holds. That early rising has been critical.

[0:23:20.9] WS: I appreciate you bringing that up. The listeners should be familiar with that book. I have talked about it numerous times and how it helped shaped my morning many years ago. I think that was just a big pivot in my business in many ways. Yeah, early morning and just

having that structure routine has just been so beneficial. What's your best source for meeting new investors right now?

[0:23:44.3] BS: It definitely changed with number of in-person meetings being pretty much reduced to zero. I have spent a lot of time developing – I spent a lot of time in 2020 developing or strengthening my website and developing and creating some information there that potential investors can access just to connect with me via and I will share that and discuss from there but as far as getting people to the website, I've spent more time on the social media platforms in the last six months than I have in my entire life probably.

Strengthening my LinkedIn presence and the Facebook presence and podcast, podcasts such as this have been really helpful in getting exposed to potential new investors.

[0:24:27.9] WS: What's the number one that's contributed to your success?

[0:24:30.6] BS: I'm not afraid of failing. I have done well in many aspects of real estate and I've failed in many attempts and even in some of those same channels have done fantastic and several flips and had a couple of flips that just totally flopped and I look at those with zero regrets. I've learned a ton and made me stronger to go for the next opportunities. Not being afraid to try something new I feel has served me really well. It's made me familiar and expert in a few, just one or two things but the jack of many other trades as well.

Just being able to put yourself, willing to put myself out there and getting embarrassed, failing, I have to come back to my wife and say, "Wow, all right this one is painful. This one is going to sting a little bit but hey, we're going to pick ourselves up and keep on going." Those failures are just part of getting to where you want to be so let's not be afraid of them.

[0:25:34.0] WS: If you haven't read the book "*Who Moved My Cheese?*" You should. It is very short, there is even a kid's version. My kids love it, we read it often and you know it is really good but there is a saying in there that there's things they write on this wall, in this maze and one of their quotes is, "What would you do if you aren't afraid?" It helps me to remember that, exactly what you are talking about right now. It's so important you know, what would you do if you weren't afraid?

Because deciding to do nothing is a decision, right? Usually it's the wrong one anyway, so I appreciate you sharing that, being transparent about that and tell us how you like to give back?

[0:26:12.2] BS: Thanks for that reminder, I remember reading that book 25 years ago when I was in college. I'll have to go back and revisit that one but yeah, I do enjoy helping people whether that's – you know we've got a young couple that we go to church with. They have never bought their piece of real estate before. I actually have them over for Christmas Eve and spent the whole time walking them through how to put an offer in.

They ended up since then have put an offer into a condo two door down from them to buy it, incredibly fun to do that and guide this couple through that process with no realtors involved and how they can negotiate that and save some money there so really fun. I haven't had enjoyed those similar type of interactions with people who want to learn more. Talking to successful people who are interested in placing dollars in real estate investments without getting their hands dirty.

That is incredibly fun and rewarding, so that is a bit more on the real estate side. My wife and I, we belong to a church that at a local level is a 100 percent volunteer led. It almost feels like a part-time job sometimes. I had an opportunity to serve people here in – I'm in Austin and the way we're structured is you know, our congregation goes from the wealthiest zip codes in Austin to the poorest, and so we have those opportunities to work with people who are literally it's housing and security, food and security.

On a weekly basis, I've got my list of eight or nine people that I am touching base with to make sure they are doing okay and have the resources they need. That takes a fair amount of my time as well but of course it's incredibly enjoyable just to give back to people who just haven't had the same opportunities, haven't had the same education, haven't had their eyes open to possibilities even.

[0:27:51.2] WS: Brad, I'm grateful to get to know you. Again, thank you for listening to the show but then also being a great guest and providing so much great insight today to how you have gotten to the level you are now and I know that came from doing lots of other small real estate

deals and getting you up to where you're at now. I mean to not being afraid of fear, I think it's so crucial to really think about that, you know, what would you do if you weren't afraid?

Even your morning routine, it's so important. It's those consistent small things that you do for a long period of time that just push you so much further forward then looking for this big quick thing that's going to happen but also helping us think through the legal side of raising money and how to partner with operators, just grateful for you shedding some light on that. How can the listeners get in touch with you and learn more about you?

[0:28:39.6] BS: Well, thank you very much, Whitney. I appreciate that. The best way to get in touch is through our website, sugarhouseinvestments.com. Sugar House, my wife and I are from Utah, that is one of the coolest neighborhoods in Salt Lake City so it is kind of a little tip of the hat to our Utah roots. Sugarhouseinvestment.com, that's the best place to find us.

[END OF INTERVIEW]

[0:28:56.9] 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]

[0:29:37.7] ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50percent of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a

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