

EPISODE 936

[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 Whitney Sewell: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Alex Breshears. Thanks for being on the show, Alex.

0:00:32.6 Alex Breshears: Thank you for having me.

0:00:33.9 WS: Yeah. Honored to have you on, and I think we met a long time ago, I can't remember exactly where, but we met... It's interesting how we meet people in this business and our paths crossed again, and so it's great to have her on the show, but a little about her, she's a private lender, passive investor, Regal plus fund investor, relations manager and community builder, she hosts daily discussions, weekly educational advance and monthly networking events in her Facebook group, private lending lessons that aims to teach people about private and lending and other forms of passive investing, which we're all interested in passive investing.

That's for sure. I know all our investors are... And how do I do that? How do I do it the best? How do I minimize risk? How do I get the most gains? All those things, right. So Alex, welcome to the show.

0:01:20.0 AB: Thank you.

0:01:21.0 WS: Yeah, give us a little about this... your passion now to help other passive investors and how you're doing that, and how you're helping educate them as well.

0:01:29.2 AB: Absolutely, so it kind of became a merge of two different worlds, and it was just a perfect storm with covid, so I'm a military spouse, which means I'm sitting to my 19th address in 20 years. So geographical freedom was kind of always forced upon us, we had some entity in our life that was gonna give us two weeks for warning we're moving across the country, so building age for additional career, as you might imagine, was not really possible.

My graduate education is an organic chemistry, so I'm a Chemistry professor, my normal kind of W2 job, so that is obviously not very transferable if you're moving to places like Kodiak, Alaska, where there isn't a community college, even on the island. So that kind of led me on a hunt to what can I do to still be empowered financially, because the military actually calls us dependents, which I thoroughly hate, so I wanted to have something where I was contributing to the household financially.

It was keeping me mentally occupied, and then when covid hit, it shut the world down, a lot of the hard money lenders just shut their doors, I said, we're gonna take a beat. We're gonna figure out where the economy is going, and just again, like you mentioned, networking a little bit earlier, I was in a virtual breakout room with some people in a networking event, and somebody mentioned that they were gonna miss out on a deal here in Hampton Roads because they're a hard money lender, I was closing their doors and said, you're gonna have to find somewhere else to go.

And it just literally worked out that he was the type of borrower I would wanna work with, that he had the property that I would wanna lend on, it was a minor rehab as far as rehabs go. So we could be in and out of it pretty quickly. And I told him, I was like, You know what, if you can give me two weeks to get all the paperwork in a bank account and get everything kind of established, I was like, I'll fund the loan, I'll do the loan. I was looking for something that would

allow me to still follow my spouse around the world, should that be needed, but still invest in real estate.

0:03:23.3 WS: Interesting, you saw an opportunity there, right, and you wanted to figure out a way that you could capitalize on and help us other person also. Tell me about hard money lending versus just investing in this indication, why one or the other, or why... But how did you make that decision?

0:03:37.0 AB: It actually kinda came about, honestly, kind of by accident, I used to work for a hard money lender way back when, about 20 years ago, back when you had to physically need the borrowers out of the property and they were physically filling out a 10-03 and walking the property, you see the scope of work, Google Streets wasn't a thing back then.

So I kinda got to see the property purchasing investing process from the other side of the table where most people do come into real estate investing, buying their first rental or doing their first fix and flip, I actually came in on the other side doing the funding for those properties, so I kind of knew that we had a couple of rentals, we'd done a couple of fix and flips, we did not enjoy it. We just... that just didn't suit our skill set, it didn't suit our lifestyle.

And I knew at some point when we went back into investing in real estate that lending was the side of the table I wanted to be on, like you mentioned with syndication, you're on the debt side, you're not on the equity side, so you're not getting any of those wonderful tax benefits, if you happen to be a high income earner, that you do get traditionally in syndication, if your operators doing cost segregation, bonus depreciation, all those things, so we actually kind of marry the two, so we do private lending to be on the debt side, and then we do invest in syndication as an LP for in the equity play in it.

0:04:51.4 WS: Nice, would you just give us a 30-second example of like a hard money... A hard money lending, like what that is in case the listener is not familiar with that term.

0:04:59.4 AB: So there's two different things, so there's private money lending, which means

that the individual has direct control over the funds, whether it's their money, money from friends and family, money they've managed to pull together whatever it is. And that hard money traditionally is they are brokering out funds or they have some sort of restrictions on the funds, whether it's a warehouse line of credit from a hedge fund in New York, they're doing white label funding for another company.

So they kind of... It sounds like a minor difference, but what it really boils down to is the level of flexibility, so in private lending, when you're an investor talking to a private lender, you're talking to the process or the underwriter, you're talking to the decision maker, because it's our money that we are putting forth for the closing, when you're talking to a hard money lender, they have the... they have to check all these boxes, you have to have above a 680 credit score, can't go over 65 LTV, they don't allow second liens.

There's all these parameters because they are in essence, borrowing money underneath that framework saying, This is how I will do loans in the future, so that's kind of the big difference between private money and hard money.

0:06:02.2 WS: The passive investors that are listening right now, should they consider hard money lending?

0:06:07.2 AB: I would say if they felt it fits their parameters and their goals, so just like every other style of investing, it's got its pros and its cons, tends to be very front and heavy, so you're gonna spend a couple of hours of doing due diligence on the borrower, maybe going driving by the property, if you're local, depending on your risk tolerance, you might not care, but the big thing is really getting an attorney involved very early to have your documents drawn up.

You need to make sure you're staying within usury laws, and then once I've kind of done, a lot of private lenders that I personally know tend to work with the same investors over and over and over again, so over time, the business model tends to be a lot more set it and forget it, but the very beginning is gonna be a lot of learning, it's gonna be like drinking from a fire hose. It's

gonna be a lot of learning and just getting out there networking with people, trusting your borrowers, doing some background on your borrowers and then waiting for your monthly interest only payment to come in, if that's what you're doing.

0:07:02.8 WS: So is the attorney there one of the first steps you're gonna take to be able to do something like this, have building that relationship, obviously ensuring you're doing this legally, but then obviously finding that... I guess in a lot of cases, you're gonna find that potential borrower, you know, when you're first getting started, maybe that's gonna pull you into that side of the business, 'cause you find somebody that maybe you can partner with and you have the capital to be the hard money lender.

And then you gotta figure out how they're do that legally, but is that attorney gonna be usually the first person on your team that you're gonna find to make this happen?

0:07:30.6 AB: I would say so, if not, if you're gonna lend out of a retirement account, for example, whoever your custodian is for your IRA, for example, having a conversation with them on what that process is, because it can sometimes be two, three, four weeks to get access to that retirement fund, so you need to make sure that the timeline for whatever barrow or you wanna do, if they need to close in a week and you're using IRA funds, there's a chance that's not gonna happen.

0:07:54.6 WS: What about some of the risks for hard money lending versus passive and syndication.

0:07:59.5 AB: It's going to be everybody kind of automatically thinks about default, they are going to say, okay, you know what, the borrower stops paying, it's really easy to say, Oh, I'll just take back the property... Well, depending on the state that you're in, if it's a judicial foreclosure, it could take literally years, there's different things that a potential borrower could do to really slow down getting custody back of that property, so it's not really kind of as easy as snap your fingers and oh, I can have property back.

So that's why I would say having a conversation with an attorney early on to know what the foreclosure process is, how long is it, what can you do to mitigate that risk? That would be, I say, the biggest kind of downside, it could take a while to get custody back on the property of the borrower, defaults, another one I would say is just kind of slow payment or maybe just kind of an argumentative borrower like, I don't do this because I wanna baby sit more people in my life...

I don't have children because I don't want a baby. So other humans... So if you end up having a borrower that you have to chase down every month, hey, your payment is due, what's going on, not returning your phone call is not giving you updates about renovations, that can kind of wear on your nerves pretty quickly if that's... If the expectations for communication or not being met.

0:09:10.6 WS: What about the level of returns, like why would someone choose this and have to do all that leg work up front, they're on... I hope most pass investors are doing some leg work anyway, even investing in syndication, right, you need to understand who that operator is in the deal of the market, all those things, of course, but what about the returns, what should their expectation be for hard money lending versus syndication?

0:09:31.1 AB: I would say, traditionally, a first lien position is gonna be anywhere between eight and maybe 12% annualized return, if you're gonna charge any sort of origination points, I've seen everything from zero to five, honestly, for origination points, if you choose to lend in the second lien position, that can obviously go anywhere from, I'd say 12% up to... I've seen 30% annualized for second line position, so obviously that's, in my opinion, significantly more risk, so hence, while you're getting that higher return versus syndication, you kind of know what the returns are projected to be up front.

You are pulling your assets with a bunch of other investors, it's a large commercial property, like for example, I only lend on fix and flip, single family, six fix and flips and Hampton Roads. So if there's something that goes wrong with that one project, you're a 100% in the wrong versus doing something in a syndication where if it's got 100 units in that property and two or

three units are having a slow turn because of supply chain issues with covid, you still have 98 others that are producing...

0:10:36.4 WS: Yeah, that's a good thing to think through up there. So Alex, what about... How do you know how much, say, a percentage of your investing capability or your net worth... Do you want in hard money versus syndication or a fund, like we talked about, or do you have any thoughts around that? I get that question sometimes. It's like, Whitney, how much of my networth should I be investing in your deals... How do you answer that?

0:11:00.7 AB: For me, it really comes down again to lifestyle, what are you comfortable with? So me personally with my spouse, we want to have six months of expenses kind of tucked away in something liquid, whether the CD is just a bank account, we understand inflation eating it, but for us to be able to sleep well at night, that's kind of our minimum we want to have... For any of our properties, we also want to have six months of a payment set aside in addition to...

And that will kind of cover... The furnace goes out, it needs a new roof, the plumbing is leaking, anything like that. So I generally start with reserves, and once those reserves are met, then we can kind of discuss, Okay, from here, where do we want to invest, because we do not invest the reserves that's purely for us to be able to sleep at night. So I would say it really boils down to your risk tolerance and what your goals are.

We are cash flow investors, obviously, since we're investing in syndication and private lending, so we are always looking at what's our potential monthly return going to be, what's our cash flow look like on a monthly basis.

0:12:01.2 WS: What other questions are you receiving right now from passive investors, so you see that are commonly asked right now in our current state of the market?

0:12:10.2 AB: They don't even know it exists, honestly, because I feel like when people get interested in investing in real estate, if I say I'm gonna invest in real estate, they only go to one

or two things that they're gonna be a fix and flip or they're gonna be a landlord, and I call it real estate hazing, you kinda have to go through one of those two avenues, and then once you've done that, like another door opens up to all these other possibilities like syndication, like private lending.

So I'd really like to see private lending kind of move more to the forefront as what I call an active way to invest passively because I believe that really opens the opportunity for active investors that are doing this full-time, it allows them more flexible capital easier access to potentially cheaper capital, and it also allows, I believe, more women to get involved in real estate, 'cause especially now with covid, we're juggling households and we sometimes have kids doing zoom classes in different parts of the house.

They might also be working from home or commuting, whatever it happens to be, so the last thing a lot of women want right now is one more tornado in the storm. So if you go and tell them, oh, you can be a real estate investor. They're not gonna have time to go and put bandit signs out by the side of the road and say, you know, hey, if I'll talk to this distressed seller when they call me at 2 o'clock in the morning because they just open their mail and saw a foreclosure notice.

That's not gonna be attractive to a lot of women investors, whereas I think the idea of passively investing, being able to do some due diligence on their time schedule and kind of arrange all those details really speaks to women more.

0:13:38.9 WS: What would you have done differently? Say, years ago, when you first started learning about heart money lending or passive investing, are there ways you would have invested differently or more? One way or the other.

0:13:48.7 AB: I probably never would have owned a single-family home as a rental. Guaranteed. That is just not my skill set, did not enjoy the experience at all, I probably would not have done a fix and flip because I don't like babysitting contractors, I'm not a decorator. I'm from New Orleans, everything in my world is purple, green and gold, so if you let me

decorate something, that's what it's gonna end up. It's purple, green and gold.

So it was physically painful to put base tile in this house, and every bathroom I was like, oh, this is so bad. So I know for a fact, if I could go back and do it again, I would not do those two options, I would do something like syndication and private lending combined, 'cause those suit my skills and my interests much more

0:14:29.4 WS: When thinking through being a hard money lender or investing in a syndication and like, how do you prepare for a downturn?

0:14:35.1 AB: I'm one of those people that will kind of prepare for the worst and hope for the best, so when I'm doing private lending, for example, I'm looking at their after repair value. Obviously, we don't have a crystal ball, we can't see what's going on, so I kind of tweet the business model where I'm only doing what I kind of consider minor rehabs because a lot of investors are struggling with timelines for supply chains waiting on windows appliances, various things for the property, just because of covid and manufacturing being shut down.

So I'm generally only into a loan for about three to four months, and I feel like since real estate's a fairly liquid asset, you're not gonna have a massive seismic shift up or down generally in that three or four month time frame. So I'm comfortable doing something like 70% after repair value because especially here in Hampton Roads, as soon as something hits MLS, it's got multiple offers, usually above asking for multiple different buyers, so the inventory so low that... It's pretty much guaranteed to sell.

0:15:36.3 WS: Nice, what about... Do you see any predictions for the next 6 to 12 months in the real estate market?

0:15:41.5 AB: I would say for here, specifically for Hampton Roads, we have actually fared during covid very well because we have such a large federal employment base, we have the military here, all the contractors that are supporting the military supplies that are supporting the contractors. So we have actually done really well, I see employment just getting stronger as

businesses start opening back up, those contracts start flowing again, so I'm really seeing some very strong growth for the next 6 to 12 months here in Hampton Roads.

0:16:10.2 WS: It's encouraging... No, that's good. And it shows knowing who your tenants are, knowing your market and who lives there is important, Alex, what about any daily habits that you are disciplined about that have helped you achieve success?

0:16:22.2 AB: I have a paper planner, I love technology to a certain degree, but I really need my paper planner, and I will sit down at the end of the day and kind of plan out my next day, so when I get up in the morning kind of groggy and just, oh, what do I need to get to get done today? I know I could just literally sit down and read this piece of paper and go, here's my top three priorities here, so when I'm doing them, here's phone calls I need to make.

I'll literally write out the name number and then a little note on what we're supposed to talk about... So literally, it's just kind of autopilot throughout the day, so if something pops up that's unexpected, I can go, oh, well, I have the mental bandwidth to deal with this 'cause I'm not trying to remember 12 other things I need to get done that day.

0:17:00.8 WS: Great idea. It doesn't have to be electronic. Right, it doesn't have to be anything fancy, but what about your best source for meeting new investors right now?

0:17:08.1 AB: I'm gonna say honestly, it's going to be the Facebook group, private lending lessons, because we have daily discussions where you can interact with other people, we have weekly educational events where we can chit chat with other people after the event, it's just been an absolutely amazing opportunity in the last... It's a very new group, is only about 8 months old, but it's just shy of 3000 people right now, so it's been just an absolutely phenomenal growth and it's all been organic.

I'm not advertising out there, just going out and offering something for people of value, because like I mentioned there's not a lot out there about private lending, there's some books out on Amazon, but they read more like textbooks instead of, here's how to do it, step one,

two, and three, so it's really... And then obviously, bringing that community together, there's Facebook groups for people that are doing the BRRRR method, there's Facebook groups for people that are landlords or short-term rental owners.

But every Facebook group that I joined before I started this one about private lending or hard money lending was a place for scams and spam. So I wanted to create something that was educational and networking-based, we do monthly networking events, so other private lenders can talk to her, basically sit down and talk shop with other private lenders, what are you doing, what are you seeing in your market, what do you do about this, I have a question about that.

How would you evaluate this property or this for or... So it's really been through the group.

0:18:26.5 WS: Nice. No, that's great advice. And if you're a passive investor, I would encourage you to look it up. No doubt about it. I have my education. It's just key right? When you're thinking through investing, what about the number one thing that's contributed to your success?

0:18:38.6 AB: I would say it's my willingness to kind of take the next step... Yeah, I don't always know what the next five or six steps are gonna be, but I know what I can take the next step, and then it's those small incremental changes that over time become exponential, so a year from... A year ago, I had no idea what I would be doing this year, sitting here today, but it's those little small daily, you know, a lot of people see those closing photos on Facebook, that what I call Instagram moments.

People sitting down at the closing table signing their name for these big multi-family properties or whatever they're buying, and they don't realize that it actually took thousands of little decisions and little actions leading up to that Instagram moment that are probably more important than sitting there at the closing table signing documents, because those little changes actually offered the opportunity to sit at the closing table and sign those documents.

0:19:28.5 WS: That's one of the many bad things about social media right. You just see the

smiles on. You don't see the sweat and the tears. No doubt about it. What about... How do you like to give back?

0:19:39.3 AB: I'm mostly with education because I really, really want to have people be educated, I think our school system really does us no favors, and financial education, they don't really teach you entrepreneurial skills, they don't teach you anything about finance, about personal finance. So a lot of people, like I mentioned, just don't even know this is even an option that they could invest potentially like this, if they think investing at all, they generally think like, oh, I'm gonna open an account and buy stocks.

That's what most people thought of investing is... And even then, they rarely will read any of the annual reports or anything, they'll just say, Oh, this particular critic likes to stock and think it's going up, let's buy it, or I drink Coca-Cola, so let me buy some Coca-Cola stock, so I really want to say it's education, that's what people really need in order to make decisions for their life.

0:20:27.3 WS: Awesome, well, Alex has been a pleasure to get to speak with you again, personally, I get to hear about your business and congratulations on just making it happen, even through hard money lending, and really explain to us and the listeners what hard money lending is. And that many aspects of that versus syndication, which mean if the investors need to know about and understand it could be a great opportunity for many the investors that are listening, but congratulations again on your success, tell the listeners how they can get in touch with you and are more about you?

0:20:55.3 AB: Absolutely, so I'm on LinkedIn, so you can send me a message on LinkedIn. The Facebook group is called Private Lending Lessons, so feel free to join the Facebook group. You can send me a message on Facebook, I'm in that group all the time, so feel free to reach out, I'm happy to jump on a zoom call and just talk to people and network with other people, get to know other passive investors because I really like the idea of having that community with other passive investors, so we can just compare notes, talk about things, talk about strategy. I think it's a great opportunity.

[END OF INTERVIEW]

[OUTRO]

0:21:23.6 ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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