EPISODE 952

[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.

0:00:24.4 Whitney Sewell
This is your daily real estate syndication show, and we are introducing a new segment called The Real Estate Syndication Show Highlights, where we're bringing you a look back at episodes focused on a specific topic that we believe have added value to you in your syndication journey.

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[INTERVIEW 1]

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Whitney Sewell
Our guest is Steve Bretton. Thanks for being on the show, Steve.

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Steve Bretton
My pleasure, writing, thanks for having me.

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WS: Raising one million on your first deal is very impressive, but walk us through some pointers that you can help us with, how we can get from raising 1 million to 10 million?

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SB: A lot of it is to… I heard a quote, I'm trying to recall who, what was from, but it was something to the

effect of If you need to get out of obscurity. So, you're not going to raise capital if nobody knows about you or if nobody knows about your product... What is it? So I focus on multi-family. Other people are raising capital for self-storage units or mobile home parks, and all of those are great assets. I just happen to love multi-family. But you really need to focus on what is it that you're going to do, how do you get in front of people? So other than friends and family, how are you gonna... 10X that you need to get in front of everyone. So doing podcasts, getting involved on bigger pockets forums in other form. I mentioned Facebook, there are a lot of groups there. So helping people get into the business themselves, answering questions, so I know small multi-family, three families, two families, I answered tons of questions about that. I've done a little bit of hard money lending, I answer questions about that wherever I can be helpful, and then that starts a dialogue, and I do the same thing in my local meet-ups, so I'm always trying to add value in those weed up and eventually that turns into a conversation.

I've spoken at some meet-ups as well around syndication. Again, it took me a couple of years to get into the position where I'm now the local authority on syndication.

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WS: Nice, like how you talk about positioning your software in the local authority, so people are now looking to you or they know of you as an expert.

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SB: Right, again, it's not just about them investing with me, so what I speak at those Meet-ups, I'm talking about how do you vet an opportunity? How do you look at these sponsors to make sure that they do have a track record of success? How do you look at their deals to make sure that the fee structure is aligned with the investors, not just for the general partners? How do you look at that deal to make sure it's in the right market and the underwriting was done in a conservative way? All those things are important, so whether they end up investing with me and use all that information I gave them to validate my deals, or they can go and look at other deals, and I tell them all the time, you wanna come to me with somebody else's deal, I'll help you do that evaluation, or whether I'm reaching happen. It doesn't matter to me, I'll just go through right through the same sort of points that I talk about in nothing, we meet up and say, Okay, let's look at cap rate, let's look at the market. Is it a growing market or their jobs, etcetera.

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WS: Steve, could you walk us through a little bit then I just that relationship with that investor. So let's say somebody comes up to the meeting and then they say, Yeah, I'd love to invest with you in a deal, how

do you nurture that relationship and what do you do to just keep developing that?

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SB: So that to be SEC rules, Security and Exchange Commission. So you have to have a relationship with the investors to begin with it, so when they come up to me, if I didn't... If I hadn't had a real ship with this person before, so at that point is more about how can I help you, what are your goals in real estate, and for some people, syndication is the answer... For many people, it's not. So again, having a diverse background in real estate, I can sort of guide them and give them some pointers on ones they do wanna d,o pros and cons, etcetera, and eventually again, that relationship will continue to be fostered over time, if it's a good fit, so if they start to think, and some people will come back a year later, you know, I tried this, I tried that, I think I just wanna be passive, which is fantastic, so then we'll go out to lunch and we'll have more discussion around what is it like to be a passive investor. Let's walk through a deal in great detail. How will I communicate with you about the property and then how things are going in terms of renovations or occupancy levels, etcetera, one of the returns look like over time. They get very comfortable with that, and then at some point, I'll put it on my list. So when I do have a deal to share, I put that out to my list and people simply respond if they're interested.

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WS: Nice. So long-term, do you do any kind of email marketing due to any kind of active campaign or anything like that to just keep reaching out to these people?

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SB: I don't do a lot of that. It does concern me, again, with the securities rules, we're not supposed to do any sort of advertising in this business unless you're doing a very specific syndication, which would only allow accredited investors. I like to keep things open so that anyone who's interested, who's at least what they call sophisticated, can invest in our deals. So again, mostly I'm sharing things on Facebook, but it's not deal specific, I'm just sharing, okay, here is a property at... I'm looking at it here or something, we just closed on or trying to give advice. So in terms of my list, I'll send a newsletter as well, but that's only quietly, I don't wanna... I think there's a term a list of fatigue, so I posed too much to the folks who are on my list, I really wanna add value, so it's a core newsletter, give a couple of pointers around real estate and then what I'm up to... And that's about it.

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WS: Awesome, so you mentioned earlier, even having the units that you already had and a portfolio of smaller multi-family or single-family, but you didn't know how to work with a sponsor, you didn't know what that looked like, and so could you give us a few pointers of things that we need to know about that... Just how to develop that relationship? Or going into that relationship?

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SB: So from the perspective of me being or wanting to be a person raising capital, is that right?

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WS: Just going from, you already have these units, but you're trying to get into the syndication business. And okay, well, now I'm gonna partner with that sponsor. What are some things we need to think about?

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SB: So, the first is really thinking about what is it that you can offer it. So again, for me, being in the corporate world for a long time, I developed a lot of friendships, all of my colleagues have been in the corporate world for a while, so they had capital to invest. They also knew me, again, my core friends knew me as somebody who knows real estate. So with strength for me was I'm a real estate guy, I have friends and family with enough capital to bring to a deal, and I know the real estate enough that I can start to get those sponsors, so it's kind of understanding what my strength is and what do I bring to a partnership. In other cases, it's somebody who's working and living in a market where the deals are plentiful, but they don't have the capital, they then find people more like me. So I knew that that existed, the two sides of the business, and what I wanted to do is find the folks who needed the capital, find a sponsor. So, I guess my tipping point there was when I decided to start calling people that I heard on podcasts. So, there are several podcasts that are focused on multi-family, the folks that I would call would be people that were one or two deals in, they just started doing syndication themselves, I'm thinking, Okay, maybe they're gonna start getting bigger now, maybe it's a 50 unit, they're gonna be to do 100 or 150 units, and perhaps they're gonna have trouble raising 2 million versus the 1 million they raised on the last field.

So, that's sort of the sweet spot, I think, of... Connecting with those folks and trying to understand what can I bring to the table? So that's what I did my first deal. That led to me, again, joining a mastermind group and then getting involved with people with a lot more experience, so now working with people that have thousands of units, they're raising five or 10 million per deal, and how do we come in and raise a chunk of that equity for them.

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WS: So, Steve what's been really the hardest part of the syndication business for you?

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SB: The hardest part for me is letting go a little bit, because I did manage my own properties. And, when I'm working with a sponsor who's gonna win to actually be operating the property managing the property management company, they're the ones who are actively sort of walking those properties on a monthly basis, I'm not hands-on in this business any longer. As a syndicator, I'm bringing the capital, I'm talking to them weekly or monthly, trying to get a sense of what's coming on the property to ensure it's going according to plan, and then I'll write up the monthly update for that property. But not actually being hands-on for somebody who's used to that in my IT career, I was a project manager, so what I did was manage the business plan for a multi-billion dollar projects. I'm used to having that control and having the understanding of every little thing that's going on. In this case, I had to step back a little bit at more like an executive and just sort of go be the high-level overview and trust that again, I'm bringing the best people in, so I should just trust them and do what they do best, just the same as they trust me to do what I do best.

[INTERVIEW 2]

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Whitney Sewell: Our guess is to Tamara Mara, thanks for being on the show, Tamara.

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Tamara Mara: My pleasure.

0:08:58.0 Whitney Sewell

WS: Most people won't pull the trigger to buy the first single family home, much less take the plunge into syndication or a large, large department of building of any kind. How did you educate yourself? How did you know how to do the first syndication just going from four or five doors?

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TM: Yeah, I had been hearing that word syndication for probably two or three years on bigger pockets at the time that I started my company, the Morata Group. And it was always a little bit mysterious to me. I was like, What is this thing? But a little bit that I heard about it, I realized that doesn't sound super complicated. And I think one of the reasons why it was not complicated nor intimidating to me was because of my experience on Wall Street, and then the other position I had as a COO was as the COO of one of the largest real estate brokerages in the state of Washington. And, when I worked for the company, the regulatory solutions company, I dealt all day long with attorneys and regulations, and the world's largest financial institutions. So if you know anything about syndication, they're dealing with attorneys, finances with the world's largest banking institutions, sometimes local banks, and a lot of regulations and as well as investor relations and all this other stuff that comes along with it. But I felt like at least I knew a little bit about all of those things and that wasn't intimidating to me.

So, I just started diving in and finding the information that would help me meet my goals. I think the first place I went was bigger pockets, I started reading as much as I told about apartment investing at that time, and I know Michael Balnk was a great resource for me early on, and from there, I just started... It was like a rabbit hole, I just kept on going down whatever path that I could find. And, from the time that I decided to do syndication, which was I think March of 2017, my goal was to have my first apartment under contract and closed by, well, under contract by September. So, I was gonna give myself six months to learn everything that I needed to learn. Well, by May, I had my first one in her contract, and I closed on a July. So, it was like two months after I had made the decision. And I think part of that was because I was very, very intentional and I started talking to everybody that I knew about what it was that they wanted to achieve, and wanted to see how those relationships could help move me forward and mind you, when we did a single family investing, we were not using other people's money. I wasn't going to networking meetings, I wasn't known as an investor, we were just my husband and I doing stuff on our own. And so I had to really make a name for myself and get, I guess increase my believability score with others to achieve what I wanna achieve.

So, where did I find out what I need to know? It was a compilation and bigger pockets, lots of podcasts, I probably read a couple of books, not necessarily on syndication, but more of things like tax strategies and some of the higher level stuff that's related with real estate investing, and just talking to a lot of brokers and property managers and anybody I could.

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WS: You talked about increasing your believability, can you elaborate on that a little bit and help the listeners to be able to do the same thing.

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TM: Yeah, being believable is so important. So I'm gonna give you an example. I write, my name is Tamara, I like apartments and I want to buy one some day. Okay, right here, like we're awesome, that's gonna be a rad conversation with this person. Or, I could walk and be like, Whitney, I'm so happy to meet you, I've been hearing about you, I love what you're doing, listen, these are some of my goals and objectives, I'm so excited to reach them, I wanna tell you about what I've been learning and see if you can share anything with me. Is that cool? Do you... Can we have a conversation? Right.

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WS: That's great. Yeah, yeah.

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TM: I think I tend to be a person that doesn't lack exuberance, and so that comes with it. And sometimes you have to practice those things, you have to practice having those types of conversations with people. But I just started getting sought out by some Marcus and Millichap started reaching out to me recently, and I'm like, Oh my gosh, they're reaching out to me now they want my business instead of and going after their business, or them to help me achieve my goals. And it's because I've been putting myself out there and I say, This is what I want, and this is how I'm going to get it. And part of that, in a syndication business is creating a thought leadership platform like you're doing, and I've done it with my podcast and speaking engagements and maybe blog articles or whatever, and are putting together a nice resume for the bankers that you want to work with or your investors. Because they all wanna know if you can do what you say you're going to do, and nobody's gonna believe you unless you have confidence in yourself, first of all. And then they need to be able to see that you have that confidence in yourself.

And I'm not talking about a cocky sort of confidence, it's just that little example I gave you. You're not gonna believe the person that sounds like a mouse. And this is my goal. Super excited about it. And it's funny 'cause I recently had a dinner with one of my broker friends, commercial broker, and we've known each other for about a year and a half now, and he helped me with my first apartment acquisition. He goes, Tamara, I never would have known that you didn't know what you were talking about. That first data we met, and he was one of the very first people that I talked to after I decided that I was gonna start this business, so tell a story and tell it well.

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WS: I find it funny, you can go back with him now and laugh about that. But that's a great advice, you gotta have confidence in yourself, for sure.

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TM: Yes, absolutely.

[INTERVIEW 3]

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Whitney Sewell: Our guest is Angelo Christian, thanks for being with show, Angelo.

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Angelo Christian: Yeah, yeah. Also, man, thank you so much for having me today, man.

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WS: I'd like to focus on the relationship between like you and the syndicator or a little bit. Or how they come to you for funding and what that looks like and what you're looking for. And so I know a lot of the listeners are like just getting started in syndication business, so how they should be prepared as far as whether it's the underwriting that they've already done, or how they present an opportunity to you all, so they know funding is more likely to happen or some things that?

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AC: Right. Right.So, let's say that is a 100 unit apartment complex, for example, and for $ million. And so, a lot of things that we're gonna be looking at is, if it is a syndication of the other banks that are already involved, and there's other banks involved. Typically we wanna see that there's a term sheet or a loan commitment from another bank. Normally we wanna see equity in the deal of usually 25%, then it can be from investment funds or assets on hand or pledged assets, and then typically we wanna see at least a 680 credit if or as a personal guarantor, we can do the whole thing in the business, and an LLC or an S or a C corp. And if the business has strong financials, we won't need any type of personal guarantee, we want a debt service coverage or at least one to one or one quarter. And we wanna make sure we're really... Our main concern, if we're doing multi-unit housing is how that assets been performing, obviously, we want to rank roles, wanna take a look at the leases when they renew, the actual appraisal, the location is very important. Just we really don't wanna do anything that's too rural, we wanna be in a major metropolitan area, so the assets is really the most important thing to us, so we can do interest only terms as well. We love multi-user housing, it's one of our favorite things. And so what I would say to a lot of investors out

there is, in the beginning, if you're starting out, you gotta start a little bit smaller and you let your way into and grow or create a as for... for a partnership, limited partnership with a group, and I put your call, you're funding together to trying to take down larger units. But those are typically the main things that we're looking for and the under.

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WS: Some really good points there. So, to dive just a little bit deeper, like you say term sheet, what is that?

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AC: So what I say, that's the loan commitment that we're giving to the client. So they're kind of like when you buy a house, you want a pretty approve letter. So the term sheet is what we're actually giving to the investor to show, that's our committed to land and that has the terms as far as the interest rate, the point, the loan-to-value ratio, and the conditions for the closure.

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WS: I wonder, in your just many years of being in this business and just seeing lots of people would get started from... who's never done a syndication before, never done a large deal. Is there anybody, not them specifically, but a way that they stood out above the rest like, okay, I know this person's going somewhere, this is somebody we definitely wanna work with to provide a loan for. Like some way they stood out that when they came to you the way they presented the deal to her, the way they were prepared or anything like that?

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AC: Well, typically what I see like a larger investors, they normally started off smaller. They started off with five units or 10 units, and then they build a portfolio, and there was a track record with us in can't think of anyone right now that started just buying 100 in or 20 uniform of complexes from the onset,. Normally, hey start with a house, and then they say, Well, let me see if I can do a duplex, and then let me see it from there, or I can do a five-unit, and from there, they learn the business and they start to get cash flow, and then they kinda just scale. Right, and then they get investors, they make a partnership. How they present themselves, their financials are very well in a word, their rent rolls are very well in order, when they go to purchase the deal, they've done their homework, they are on the location, the equity, the debt service, the net operating income, how they think the assets gonna perform. So they present a full package to us so we can underwrite the file quickly and quickly give them a term sheet, and they're very

organized. People that are sloppy and they're not together and they wanna apply for a loan, underwriters will not gonna take them seriously.

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WS: Yeah. I like that, presenting a full package. They've done as much due diligence as they can up to that point, pretty much.

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AC: You have to. For example, Orlando is a very hot market right now for multi-unit housing, so as Jacksonville, Port St. Lucie in Florida and Athens in Georgia. Houston, Texas is hot. Austin is a hot market, so as Charlotte, North Carolina. These investors are doing their homework and making sure that the property has the equity spread they're looking for. It's performing. Normally, I see a lot of these investors, what they're doing is they're trying to make their complex stand out by doing things differently, maybe adding more renovations, interesting things like state-of-the-art technology to the apartment. They're adding fences around the units or different things with service that they're going to offer to the consumer so they can raise the rents and increase the value of the property. Basically, set new comps for the market. That's what I see a lot of the good investors are doing.

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WS: They're finding ways to add value that's out of the box a little bit.

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AC: One of them that I know of, for example, he will allow pets but he charges an extra deposit. He built fences for the dogs or the cats for each one of the units. He's attracting a certain clientele that has pets. He's able to raise those rents by 9% because he was able to do that. It introduces a niche because a lot of apartments don't like pets or dogs or they charge high premiums or fees to be able to have a pet. He's basically labeled himself at one of the complexes as the pet niche apartment.

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WS: As far as on the lending side, as far as underwriting, how do you like to see that presented to you? Are there certain ways you like to see that presented?

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AC: As I was saying earlier, 80% of our business is residential. The 20% right now is commercial and syndications. Typically, if we're talking about a residential deal or even a commercial, they have to have their last two years of financials. They need to have their pro forma showing their projections if it's a business or let's say a rental income-producing the property, pro forma for the next year. They need to have their rent-rolls in place, all the rent-rolls that they have, the copy of their credit reports, a tri-merge credit report, their loan application or 1003 that are completely filled out. They have to provide if they're a wage earner, their pay stubs, if they're self-employed, their bank statements. A copy of their bank statements for the last two months or where the funds for the down payment are going to be coming from. An executive summary summarizing what their goal is, what their intent is, where they are trying to do. We want that all zipped up in a folder and all in PDF is preferred, either hand delivered or emailed or Dropboxed to us. We'll be able to underwrite that loan. We can review that loan in as fast as 72 hours for a decision, which is pretty good.

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Whitney Sewell: We hope that you enjoyed the Highlights show today. You can always listen to the full episodes that were featured today by clicking the links in the show notes page. And in the description box, let us know why what you've thought of this episode or you can go to lifebreidgecapital.com/podcast and click the feedback button. Let us know how we can add value to you. Thank ou and talk to you tomorrow.

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