

EPISODE 971

[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]

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Whitney Sewell: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today our guest is Lance Pederson. Thanks for being on the show, Lance.

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Lance Pederson: Oh, thank you, Whitney. Happy to be on.

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WS: Yeah. Happy to have you here. And Lance's a Founder and Managing Partner, a very vast and Indian middle market real estate investing platform designed to help passive investors connect with worthy real estate sponsors. He is served as a lead consultant and architect for over 180 real estate investment funds since 2012. That's quite impressive by itself Lance, so definitely a great guest to be on our show. I was thinking through, I mean we work so hard, personally I just...I call it the investor lifecycle, you know, like every touch we have with investors, making sure it's above what's expected you know and as most professional in a way we possibly can and so we employ people just focus on those things. And so, I feel like Lance is a great guest to help us kind of see into those things you know from last because he sees this from lots of sponsors works with many sponsors, many LPs, and you know as he said even before the show just helped me remove the friction between the LPs and GPs out of that thinking like that because we definitely don't want any friction there, right? We're helping one another move forward.

So Lance, welcome to the show. I want you to give us just a little insight or vision into the, you know, the last year since 2012 what you've been working on and how you got up to the very best.

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LP: Sure. Yeah, so very fast was sort of an accidental business, if I'm being honest. So for us, we have a private equity real estate firm called Fairway America, and we decided to tilt up, open-ended sort of diversified fund, like basically a fund to funds, which allowed us to allocate into you know, syndications, you know, other funds. So we kind of went down that road. We learned quickly that reporting standards and downstream from us, you know, those were investing with weren't really up to snuff which presented a problem because for us to do the financials that are fund level without, you know, information is impossible. And, same time we started our advisory and consulting practice around fund formation so we are working with lot real estate entrepreneurs around the country who, you know, helping them structure their funds and, you know, launch these funds. Well, at the end of it, they're like, "Well how do I administer this thing?" and we're like, "Well, you know, this is how it works and you know it's it." It quickly became one of those things where like, I don't know how to administer it, and none of the fundamentals traders are willing to take us on his clients because we're too small. So for us, we were kind of had that moment of truth where we're like, "we don't really want to start another business because we just kind of want to be fund managers and allocate capital" but...but at this point, we really have to solve the problem so we took what was an internal department and made it an external facing division and started offering bookkeeping, accounting, fund administration services to our clients. Well one thing led to another and that just took off.

In 2017 we spun it off as its own...as a separate company. So, and at that point we named it, you know, our company...our office was on Redwood Lane and we basically, you know, this shows you how much stuff that we've kind of put into it like it was more of a means to an end. So we're like, "What are we going to name this...this new fund administration company that, you know, has like a billion in assets under administrations?" and we're like, "Let's just call it Redwood. Redwood Real Estate Administration." And we really never marketed or anything but just as time went on, we realized that it's a huge need in the market, and we ended up around that same time we kind of went all in with it and decided to develop our own investor management platform, so that we could actually administer these complex vehicles because the

open ended funds are just a different animal. And, you know, their unit ties then you've got net asset value and...and you know, really nothing on the market would handle those sorts of complexity so we went down that road, and then, last year we decided to...we rebranded Redwood, we kind of said "Okay, this is a real business and there's a real need in the market." We decided to rebrand it very best. So that was in July, but I think...So really since that time I think the common theme for us and spend to me. My business partner Matt Birk and I in 2012, sort of, decided to embark on this journey we, you know, like most people do you say, well, "What's your vision?" And, you know, "What are you trying to do here?" Right? Like there's got to be a bigger purpose and, you know, for doing this other than making money and I think for us...our whole thing was, well, if we can help create a flood of capital to where the, you know, real estate entrepreneurs around the country, that's what we want to do right, because we for ourselves we were longtime dead fund managers, so we had run, you know, for dead funds before we decided to sort of become more private equity real estate guys. And that was the thing that always bothered us, right? Was that the good guys are usually aren't the greatest marketers, they don't have flash and, you know, they're understated and, and often they get overlooked. And so we just felt like, there's a lot of really good operators and managers out there that no one has ever heard of. And we just feel like whatever we do from this day forward, let's, let's do things to help them get access to capital more easily. And really that's sort of been our guiding light since then, and every decision we make is sort of against that, like "Will this help create a flood of capital to where the real estate entrepreneurs? Yes or no?" If no, then we don't do it, if yes contemplate it.

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WS: Nice. Well no, that's so interesting and I think that's how most entrepreneurs start businesses right they see a problem. And it's like, "Okay, well let's, let's go see if we can fix this problem" and so many businesses are born that way and thankfully this was successful sounds like. But you all started bookkeeping and accounting, right? It was that for was that for, say LPs or GPs? Or both?

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LP: For GPs, yeah. So, it was more, kind of your fund administration so, because we were dead fund managers we ended up attracting a lot of dead fund clients, so we were administering quite a few dead funds and dead funds, especially when you're lending the like, you know, fix and flip guys, the loan balances are pretty small. So it's pretty tedious at the fund level to do all the, you

know, tracking all the originations and the day loans payoff and advances are being made and so really that was, it's quite a bit of work so you do it at that level and then that's really graduated to just, you know, doing all sorts of accounting related things, and then of course the, what we call investor servicing but it's just the capital account maintenance, right? So you got all these partners and these partnerships, you've got to keep track of, you know, allocating income and expand...

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WS: Right.

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LP: The appreciation and the distributions going out in the waterfall calculations and so really that's...that's at the heart of kind of what we, we had to do. So we've got a bunch of the fund accountants who, you know, that's what they're experts at.

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WS: Yeah, we have a few important things I want to ensure we get to during the show and discuss, but one other question on that, I mean, did you have a background in accounting or bookkeeping? Or did you just find people that were experts in that space and hire them?

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LP: Yeah, that's a great question. So, to know I'm...I don't and we really didn't buy sort of superpower, is just I learned really, really fast, and can pick things up and in accounting, when I started my first business, it was one of the things that became similarly right it became something it was an impediment to growth. Right. And I had to learn what accrual accounting was about because I couldn't figure out with whether we were making money or losing money or whatever. So I became kind of a student of just accounting in general, mainly around, you know accruals and inventory and so I ended up picking up a bunch of skills around accounting. So when we decided to kind of launch, I was sort of like fund accountant number one. But yeah, I mean, I quickly realized that I've got to get somebody who knows what they're doing in here so, you know, we made a hire and, you know, since then it's, it's kind of taken off but...and that's usually how I do everything when I start something new, I kind of have the guinea pig. The first person to sit in the chair, figure it out and then quickly find somebody to backfill myself.

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WS: That's impressive. That's so impressive that it's like, you know, learn it fast, find the right people, make it happen, just the entrepreneur mindset behind how you did that. But I want to jump forward because you're helping so many people, so many passive investors to find, you know, just reputable sponsors, right? Trustworthy sponsors, and that's difficult. I hear it all the time, I mean many, many, many investor calls every week you know investors say, "Well, what is this syndication thing?" Right? "I've never heard of this before, and it just seems so odd that I'm just going to find this team and hand them all this money," right? And so you know, it's building that level of trust, we've worked very hard at that. But I love to hear it, you know, just your thoughts behind that because I know you're talking so many limited partners, past investors who just feel it's so intimidating, right? To get into the space and knowing where to invest, who to invest with, could you just speak to that?

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LP: Yeah, it's another one of those things that sort of a bit accidental, I mean, we were obviously we're, you know, for us, spend a lot of time building our own investor base, and so you know we had live investor conferences and, you know, spend a lot of time speaking with him but a funny thing sort of started to happen, I guess it's probably about a year and a half ago now, is that I started getting phone calls from people who had invested in clients of ours, right, so they call up and say, "Okay, Lance, you don't know me, but I'm invested with X and Y and Z. And you guys administered these funds. And, I like those guys and I like the fact that there's somebody who's providing some third party oversight that's what gives me comfort so I, assuming that you have many other clients since I've already found a way to invest in three of yours, can you send me your client list?" So I'm like, "that's an odd request," and I'm like, "I don't know if I can just send you my client list, but what are you looking for?" Right? And so, that explain whatever it is that they were looking for, their mandate, you know multifamily syndicators in the southeast or whatever. So then I'm like "Well let me just give you some names of people who fit that criteria" right? And then two weeks later, same thing happens, "Hey Lance, you don't know who I am" and I'm like, "What is going on here?" So then I realized, I'm like, "Okay, I need to dig in more," so I call the other guy back and I'm like, "Okay, this happened again. I've got all you guys calling me now. Tell me what you're trying to do." So the basic gist of it was "Lance, we got into this real estate crowdfunding stuff. We realize there's not that many sites in the deals in the sites go fast and they're not that many deals. You can go direct to the sponsors, we figured that out but we don't know how to find them. So we're just trying to, it's just a ton of work

to figure out who they are and where they're at," and then I realized like, okay that's true there's no place to go that you can find, you know, there's no one database right to go to. And then I said, "well if you could wave your magic wand, what else would you...What do you wish you could do that you're not doing?" And the things that came up consistently were, you know, I wish, I really wish I could run background checks on these guys because I never know if they're crooks or not or, I mean, I don't know. I don't know them from anyone. And then the other things are like, they all purport to have these godly track records that these things they've done but I have no idea if they're just making it up or not. I wish there's an easy way for me to verify these track records.

And then the last one of course, is there like, when exactly well I'm just assuming that I'm...I can't help it but I'm just paranoid I think that I've invested in a Ponzi scheme. So the Ponzi scheme language kept coming up. Also, so there's this pattern of, these are the things that cause us concern and hesitate before we invest. So this is where I realized like, that makes sense. So this is what stops people from investing quickly because they don't know. They don't know the counterparty and they don't have a great process for determining whether or not they should trust them. So they all, you know, to a person they said, "Well, I just use time. I just meet them and I just wait, you know, and I'll look at a few deals and then I'll..." you know some guys will like, "I'll wait till the third deal" or "I'll wait till the fifth deal." And so I'm just thinking, oh, that's completely inefficient if, what if we just did those things for you? Would that make it easier? Like, we had make it way easier to be game changing, because now I know that I can just evaluate the investment on its own merit, meaning do I like this property and this submarket? Do I agree with the business plan? Yes or no? And do I think that these guys are...can execute the rest of stuff I don't need to worry about? So, that's when we sort of decided to launch that service as an extension of what we're doing and build the directory so now you can go to verivest.com and, you know, type in multifamily syndicators in the southeast and you basically can find, you know, those who meet that criteria who've undergone background checks and verify the track record and are being monitored.

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WS: Interesting. So, what about, you know, outside of verivest, you know say the past investors listening right now that's trying to figure out those things, right? Trying to build that level of trust with the sponsor. Can you just speak to them a little bit if they don't have someone like yourself on their team or they're just you know maybe they already have a sponsor in mind but they're

trying to figure that out, any steps that they could go through or questions they should ask? And, you know, I know we talked about questions I sponsor optimized for like your level of experience, maybe there's a few things you could provide to that passive investor that's listening that they need to think through before they make that investment with the sponsor.

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LP: Let's say that, you know, I didn't have access to the verivest stuff and I didn't feel comfortable with the background check or whatever. I think that my go to would be to get references like, "Who else have one of the other investors have worked with these people before?" and have those conversations what I found when I've called investor references, it ends up they're not as great or wonderful as one would expect, oftentimes, because, you know, and investors, I think it's interesting because when it comes to investments, nobody wants to be the guy that said, "Oh, this is great." And then have it, whether or not they even know who that person was or not, like they don't want to be the one that said, "Oh yeah, Whitney's awesome you should invest with those guys" if he himself is uncertain, or doesn't have proof, because he's want to be the guy who then if it blows up, he'd feel guilty. Right? So I think that a lot of people skip that step because they think that, you know, anytime you get a reference that it's just going to be glowing. And I have not found that to be the case at all, so one thing I'd say the sponsors and I tell them all the time, is that if you've got someone on your investor reference list, you better darn well make sure that those people are going to say wonderful things about you, right? Like don't just say "Well yeah, call Jim. You know, I'm confident Jim thinks I walk on water," it's like Jim probably doesn't think you walk on water. But that would be the big and then just back channeling stuff, so I mean, I'd probably call their property managers. I just try to figure out who these people are, I mean that's at the heart of it, right? It's just, who are they in are they capable of to execute the business plan? You know, can they execute this strategy? Have they done it before? And of course that's why I think track records, huge if you really have one, then that sort of is indicative of performance it's, it's, it's, funny to me that that we don't make a bigger deal about it, because it sort of demonstrates and I get it, we've been in a bull run and everyone looked like they knew what they're doing, but it does sort of point to what might happen in the future, I mean at least with other things going on. So, and then reporting thing obviously a big deal to is just figuring out how often do you report, which those investors could probably give you insight into.

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WS: You talked about calling the property management campaigning it's interesting. I think of you know I've had, you know, hundreds and maybe thousands of investor calls over the last, you know, numerous years, and I think I've had one person recently asked to speak to our management company and our potential investor. I thought it was an interesting thing you know, because then it was like that away they could verify that those properties that we show on our website or whatever are actually under management, you know, and ask some other questions, so I thought that was a neat question that I haven't hadn't received before, but they had a call with them and it was fine, but still it's just a way, you're getting to know someone right off the bat brand new just to ensure hey this, this is real, you know they are actually managing or at least another call there another contact outside of that initial sponsors, organization, potentially.

But what about...you mentioned reporting, could you just highlight a few things about reporting that you like to see from a sponsor?

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LP: Well, I mean, at this point, it seems that people are really struggling just with frequency and consistency. So I think that just demonstrating that you're least sending out some sort of narrative report on a quarterly basis at least, just seems like the bar that you have to be able to cross, right? So as an investor, if I'm not seeing evidence that you've been doing that...I mean, I should be able to say to you, Whitney, "Okay, what deal have you done that's been on your portfolio for two or three years?" and you say "this property" that I say "okay, send me the investor communication you sent to all the investors in that deal, and I should have that in my inbox, as far as I'm concerned, in under 20 minutes," because if it exists, then you should be able to send it over easily, right? And so, I think that's sort of how I would go about it. I mean, what do I really want? I, as an investor would love to get a capital account statement quarterly. I'd like to know, I mean I already know how much you gave me and distribution, so thanks for telling me that you sent me this money. What I'd really like to know is how much income is this property is being allocated to me. You know, how much appreciation to be helpful inside of the year not after the years over. And then obviously just the property level financials, I mean some people don't even provide those, but I mean I as an investor, that's kind of important. I'd like to be able to take a look at those things. So those are the things that I look for. And I feel like that's not asking too much but, but I've learned otherwise that I guess that is a tall order, unfortunately.

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WS: You know, it's interesting, it's all about who you speak to and what operators. I think there's some people who are sophisticated, are experienced as you are that are going to ask for those things and know what they're looking at or many investors and almost scares them to see, you know, financials like that they just don't know where to start, but it's great to have somebody like yourself on our team, you know, that can help them or understand those a little better. You know, and I wanted to speak to the frequency. Are you talking about getting those updates to you quickly? I have not seen anyone else do this, maybe you have. I know we, probably a year ago, we started putting all those investor updates on a landing page and now I mean, immediately I can send investors links to almost all of our projects where they can see every investor update that we've ever since, you know, so they can, I mean they can go back as far as they want you know, so easily, so it's nice that you bring that up as well.

So, we just have a couple minutes left, but I wanted to speak to, this you know, investors, or sponsors that are that are wanting to work, you know with institutional money right or they're wanting to, you know, work at that level of investorss or maybe they're not wanting to, you know, continue to have to have every investor a 50,000. But what does that look like typically for you? And, you know, maybe some steps for them to become ready for institutional money.

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LP: Yeah, it's, it's a lot of what we just talked about is that institutional investors, their expectation just to survive their due diligence process is that these things will be in some sort of data room that they can look at. Right. So, if you want to go that route, then you're going to have to have...you have to be very organized. And now, I think that the downside is that institutional capital really equals expensive capital. So I just have so many sponsors think that that's like that's a graduating to something like, I mean it is in a way it means that you're mature enough and organized enough to be able to you know to attract and that your track record is extensive enough to where they're willing to, you know, do business with you but right like it's, it's not as wonderful as many people think it is. They cram you down and it's kind of like owning a job. So, you know, and obviously it's not just, it's not completely binary, right? But you need to understand that it's not all that you hope it is because everyone wants is programmatic capital where it's just instant on capital that equals, you know he has a gold, still makes the rules. And that means that don't expect that you're going to, you know, the fees that you've been charging you probably won't charge, there's always trade offs, right? And I think that that's the big thing

and I just think there's not one size fits all, is the other side of it, it just to capitalize transactions is complicated and each deal stands on its own and, you know, but you need to be ready for it all because if you do find a deal that needs 20 million in equity, and your investor base can't bring all that, then you need to find ways that maybe you can take on, you know, money from equity from a private equity, you know fund or something real estate fund. And it just if you're not buttoned up and you're not organized then, you know, you will be able to do that deal, right?

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WS: Yeah. Definitely need some options in this business or where to where to find money. Hopefully your investor base and operators continually growing, and I was just sharing with someone in another show we talked about referrals and it's incredible to watch that happen, it's our best source of new investors right now, just people sending people are way so it's just neat to see that happen. But thanks for sharing just some pros and cons really of, you know, with going that direction right for institutional money. And, so yeah, some things may have to change if you're planning to use or go that direction these type of funds.

So Lance, what about you working with all these investors, now ask all operators and I'd love to hear your opinion on this because as you're vetting evaluating so many sponsors. How do you prepare for a downturn? What do you like to see in the sponsors? You know, information or, you know, their investment summary, all these things you know, you're talking to them, how do you know they're prepared for something like a pandemic?

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LP: Yeah, I mean, the like a pandemic thing would be tough. It seems that most weren't prepared, are not prepared enough. I really think it's just being...it just comes down to, you know, being disciplined and thoughtful and, you know, having a method to your madness, may just think is thoroughness, right? I mean, I don't know if you can be prepared for it, but it's obviously going into the transaction. Whether you...before you do it, there's inherent risks that exists no matter what. My podcast is the Real Estate Risk Report we talked about this all day long, but it really is you need to think through each risk that does exist and think about how do we mitigate that and how would we react. So from an invest passive investor and LPs perspective mean, you know, I know it's boring to read all that disclosure material but you can just hone in on one and go and ask the sponsor, like "What if that did happen? What would you do?" Right? And I think that's how you prepare for things, is that you run through and you

actually acknowledge that it could happen. I speak with lots of sponsors when we just want to get them on the show, just trying to get them recalibrated to thinking about the risk is kind of odd because they always want to have this tendency to say, "Well, it's really low risk, it's whatever" they say things like that. I'm going "Okay. But that's the wrong way to look at it."

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WS: There's still risk, right?

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LP: It's a risk, how do you think you generate 50% IRR, you know like, 10%? It's you take on risk. That's the name of the game. So I think that's how you prepare for downturns, is acknowledging that a downturn could occur and that this thing cyclical. And what are we going to do that might mean just not you know not taking on as much leverage or, I mean I, there's all sorts of things that one would do, but that I think that's how you have to approach it.

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WS: What about any predictions that you have just in the real estate market over the next six to 12 months?

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LP: Yeah. I mean, I think it just seems to me that we're becoming a nation of renters. It's just, no matter what, I mean that's just the trend. Just more and more people choosing to rent rather than own, and I don't think it's just sort of a flash in the pan thing I just think that, you know, I just think that's going to continue to persist, right? It's just build to rent and all those things you can kind of just see it. People would rather just rent something, you know, rather than own it these days, it's just cars and boats and everything that can be, you know, investors own them and other people rent them.

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WS: That's a great way to look at it right there, that's so true. So which side of that coin, do you want to be on, right?

So, what about some daily habits that you have Lance that you are disciplined about that have helped you achieve success?

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LP: I mean, I think my big one is just been rising early right before everybody else. I mean it's hard. I'm on the West Coast, we got a lot of East Coast clients it's hard to beat them up, but I get up at 4:30 in the morning and that sort of just my way of preparing for the day and, you know, not having a bunch of people emailing me and calling me and family running around and, you know, those sorts of things. So I think that's been the number one thing, just to recharge every day is to kind of get up before everybody else

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WS: I agree completely. Definitely has changed my business completely about being up early and making things happen. What about...what's your best source for meeting new investors right now?

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LP: I mean, my best source right now is you know I published an e-book, kind of on all this topic right like the definitive guide for, you know, due diligence for passive investors. And it's amazing he put that out there and run ads on Instagram and Facebook and stuff but that, you know, people buy it on that and they reach out to me like "Hey man, I just downloaded the book." This is great stuff and, you know, they got more questions and something I think that notion of like a lead magnet and just having, you know, giving in educating first is huge and obviously a podcast just like you mean, my podcast is for the passive investors and just, same thing like you talked about things that concern, those sorts of people. Then they find you, so I mean I'm not pitching investments, or selling it, I'm just trying to educate. I mean that's not nothing new. I mean a lot of people do that but I've seen all my clients have been successful using a similar formula so...

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WS: What about number one thing that's contributed to your success?

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LP: Yeah, just tenacity, right, just grit, like I just don't give up. I just keep going. Drives my wife crazy, yeah, I mean it's just, having that kind of mindset, right, like will not be defeated no matter what happens, just wake up the next day and head down and keep going. It's been hard, right? It's always hard doing great things that, yeah, I mean those things are hard but you got to keep

going.

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WS: And how do you like to give back?

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LP: I mean, I think for me, the big give back is just always looking to help and coach and provide insight and be real with people, and you know, one of the things we're working with one of our clients is sort of, for multifamily owners actually it's called the Veritas Impact Partners, and they're doing, so it's a nonprofit that sort of allows multifamily owners to have sort of social programs like, you know, after school care and access to telemedicine and, you know, just another sort of amenity I think that's overlooked because we do see the squeeze, you know, on that kind of forgotten middle those who are not sort of on welfare, you know that are just but they're barely above it and just trying to make it happen. Those are the people who occupy many of these apartments that many of your listeners own and operate, right? And so, I'm really getting more involved with them and learning about what they're trying to do. They're doing it in Texas right now and with my platform hoping to help kind of spread that and get more operators to realize that they can really help their residents and tenants, while also driving more NOI, like these are the things that create people, you know, cause people to stay in the communities they're in, and they don't leave.

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WS: You know, that's awesome. What a way to give back and not just within your own business, but really helping other multifamily operators to give back as well. I love that thought and, and that design.

Lance, amazing show, just a great you know, understanding the friction between LPs, GPs how to minimize that, and how you have done that, and how you're helping others, and also just thinking through institutional money and you know the operators really want to go that route or not pros, cons, and maybe we should have some avenues like that if we needed if it's a big race, potentially, but just thankful for your time and sharing your level of expertise, and oh, and also just how you just tackled another business even starting your own accounting services and bookkeeping it's impressive, to say the least.

How can the listeners get in touch with you and learn more about you?

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LP: Yeah, you can go to [verivest.com](https://www.verivest.com) or [therealestateriskreport.com](https://www.therealestateriskreport.com). Fastest way to get hold of me.

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[OUTRO]

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