EPISODE 985

[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 Sam Silverman.

Sam has become really professional passive investor. He has dove head first into this business and became a passive investor. Because of the income level that he had, he had to figure out what the best way to invest that was, and we're going to get into that today. But although about him, he's a tech sales leader that has led global organizations, his leverage his day job to passive investing and operating multifamily apartments. But today, we're going to get into how he graduates college, and then has this income that he hasn't had before and has to figure out what to do with it, right? And he goes down that path, and most of us have gone down or have thought about going down which is, you know, starting with single family homes and learn the hard way how much brain damage, or this time, has to be spent to make that model work. But he took some big changes, learned a lot about passive investing and now has become active in the space as well. So I hope you enjoy the conversation.

Welcome to the show Sam, a pleasure to have you on as a guest. And tell us a little bit about your background. I want to hear because I know you are a very active passive investor but now, some things are changing and you're in you're changing even, you know, from the passive role to more of an active role and I want to get into that, but tell us a little bit about even your W two position and why invest in syndications.

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Sam Silverman: Yeah, but Whitney thanks for having me on here. Big listener of your podcast, definitely appreciate coming on here.

When looking at the W two jobs, so right at a college, got into sales. And when you look at sales, especially in tech it's a pretty low barrier to entry job, right, meaning that you can quickly scale and grow in the role, both in terms of position, responsibility, and more importantly earnings. So when you look at that you have the, you know, excess cash they never had before, that you're looking to, you know, "What am I going to do with this?" Right, so that was kind of my entry to real estate, and started in real estate like a lot of people do: bought in a single family houses right at a college the first few years, and realized this was not the past that I wanted to go down. I think something people missed a lot when looking at single families just the amount of mindshare and headspace that it takes up.

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WS: I call it brain damage.

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SS: Yeah, that's like putting it.

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WS: Yeah, I did the same thing. And that's the way I was advised by so many people who had been in the business a very long time as well, it's like you have to start small and eventually you'll get there, you'll grow, and you'll move from that single family to maybe a duplex, a fourplex and eightplex and, you know, and after a few years...but keep going, you bought a single family homes right out of college, but you figured out "Wait a minute, there's a lot of work, involved a lot of time."

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SS: Yeah. I was lucky in a sense when I bought them that I actually bought in the submarket of Jacksonville, Florida - great market, I love the area especially now multifamily as well, but that area for context, I bought the first house on more or less farmland, like they had the clear tree is to even put the single house there. And now there's no 30 or 40 houses in a few blocks to the area, and I probably caught it in the second inning. So it's...it's moving on up or third or fourth inning now, so they have to do a few reef eyes on those properties, pull out of my cash, back out on them, sold a few. So, really good learning experience. I think it's actually similar to, you know, what I did at first and sales right as an SDR function where it's look at that role, that role is booking appointments, pass them off more senior sales rep, and then kind of earning your stripes that way. So I view it as a really similar experience where it gives you the insight as "Hey, what do you want to do? And what do you definitely not want to do?" Which I think is a super important part, like understanding what you don't want to do first, really helped point in the direction of what you actually want to do.

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WS: You need to get clear on those things, right? What you do not want to do. Tell us a little bit about what were those things for you and how is that helpful.

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SS: I'm the biggest thing...was when looking at the capital and the properties, right? Just kind of breaking that one property for example, they make anywhere from two to $400 a month, right? And getting yourself some reserves, they weren't bad properties like it was solid cash flow. The biggest thing was that each purchase was a new transaction. Right, so I'm looking at it, it wasn't getting to scale the point where "Hey, I can never replace my entire W2 income. This is a lot of freaking houses." You start running the math on them and not as a lot, a lot of houses, a lot of transaction really spread out copy management as well. If you can get them somewhere close together, right, you're still paying a premium to have those units manage, and so all different transactions, a lot of tenants. I think one of the biggest things as well as that, you have a single family house. Once vacant, you're netting zero on that property, which is kind of a good pivot to the multifamily side, where your breakeven standpoint were looking at occupancy is so much lower than single family, right 100 versus maybe you know 60, 70% so huge swing when looking at that

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WS: For sure. No doubt about it. And so, you had this income, all the sudden you get out of college, you're making some money, you said, "You know what? I'm going to figure out what to do with this," you found real estate, you start buying single family homes, you figure out there's a lot of brain damage, a lot of times spent - a lot of mental time, you know, I think you said. I

mean it's so true. So true. You know, people don't realize, but you know you buy these homes and I love it you say, you know, you need to know what you don't want until you figure out what you do want. And so moving on from there, like did you buy more single family homes? What happened next? You know, what made you then look for something other than, you know, this business plan that you have?

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SS: I took on a time to step back and start with okay, what I want to get to be the first day was just go right to something right better than doing nothing at least taking some action. Then once you kind of have the momentum. You can take a step back and think, okay, start with the end in mind of where you want to get to versus what you're doing on daily basis just to push the ball forward a little bit. So from there, I looked at okay, what is something that I can get involved in that allows me to spend almost all my focus on my day job right being in sales, and having a good career trajectory, your earnings are variable right where, if you perform better, you make more money. If you perform better, you know, typical you're in a sales or if you're in a good one, that's purely a meritocracy, right? It's not tenure-based, it's not political, but it is solely based on performance as a very metric driven role, right where in certain fields, say for example if you're a doctor, right, you may be a great doctor but maybe hard to quantify how good of a doctor you are. You look at sales, it is black and white, right? Age, you know, tenure, politics really don't matter, right? It's more so, if you perform, you'll earn well and have a great path. If you don't, you'll likely be out of a job. So, I think it was a really, really compelling area to get started in, to kind of looking at the switch that I made from single family, stop buying single family, sold some off, still have a few that are actually performing pretty well. Long term tenants there so maybe once they, once units turn a look at selling those. But for now, they're fine.

So did a lot of research, right, from podcasts like yours, from, you know, Michael Vock - he's awesome, his podcast great educational content as well. And then what I started doing is learning a lot more about multifamily syndication, where all these people go on to the podcast to talk about a topic, but for being transparent here, to promote their business in some way. And you look at it, kind of, my roles have been building sales orders. And one of the biggest characteristics of building in sales is hiring the right people. So my background is really well versed and interviewing. So what I would do is, I listened to the podcast that are podcasts and podcast, find people that I thought seem genuine, transparent, competent. I get on a call them, and I'd interview them, right? As the teacher people you're getting a check of, you know,

$50,000 plus that you want to feel confident in who they are as a person. Character's a really big thing. All the fields, you'll see the differences in terms of return, are negligible. Right, they really aren't a huge swing when looking at now 15% versus 17 versus 18 or 16, right? It's all pretty standard. But the biggest thing that you want to see is that, who is this person who gave my capital to? Like we all know have artists to go make that money and actually save it. That's your point where you can go investment deal like this. And then more so, what's your confidence? They can go excellent is on a business plan, and it's a realistic expectation and provide themselves the proper buffers on either area.

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WS: So important, Sam. I'm grateful that you brought that up, and so I get asked every week by numerous new investors, you know, through phone calls, they say "Whitney, what else should I be asking? Maybe it's their first phone call like this, maybe they've had a few with different operators, and they're like, "What else should I be asking?" And I say ,well there's tons of questions you can ask around - location, and deal, and underwriting, and assumptions. Like we could get into some deep weeds, right? You know, or deep water, thinking about all those questions and get real complicated. But I tell you, the first most important thing they need to be asking about or figuring out, is that operator's character, right? Who is this person? How did they become who they are? You know, how have they had to operate or perform in difficult situations? You know, how did they become the person that they are? Are they going to have you in mind as the investor when hard times happened, you know? And so I could not agree more that character is so important.

So you learned about syndication business then you decided to start investing, obviously, passively as opposed to buying more single family homes. Tell us a little more about that. Maybe some more ways that you've added the first operators of his first few phone calls, things like that.

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SS: The biggest thing I, you know, listen to podcast I find people and kind of the big folks that had around them is, okay, you look at all these people who are in the syndication business, they definitely had a career first, right? There's very few, you know some, maybe even that category where you know right out of school, they jumped into this business, and work their way out from a firm or kind of started around thing right away. But a lot of had careers previously. So one of the big things I looked for was what this person giving up, right? Like to go do this. I think sacrifice is a huge piece and what do you walking away from. I've nothing against helpful thing just to practice my next comment. But if you have, you know, personnel who've been housing making 50 grand a year, and they're going to run a syndication business. Right, 50 grand, not a bad thing, depending on where you are in the world, but are they giving up enough to see success themselves by looking at someone who's making three, four or $500,000 a year in their previous roles, right, building teams, scaling organizations. I feel a lot more confident with them, knowing they have a family, they live in a high priced house, right? They gave up those things to run this business, versus, they were taking a you know lateral step from a lower earning, lower upside type role. So what do they give up and sacrifice is really important to me, kind of knowing what they have on the line.

Also looking at "Hey, how much equity do you have missed personally?" So I think that's a huge component of it, right? Because if you look at how these deals are structured, there's an acquisition fee. And if it's small GP theme, they need to cover their entire buy into a deal through the acquisition fee. So a question I was asked is, how much capital do you and the other GPs having this deal above and beyond the acquisition fee? And then also looking at how the deals are structured, right? So big portions for me was that, you know, I built sales comp plans, right I've managed many sales people build sales team that you want the compensation plan their variable earnings tied to performance right where they crush it. They just make a ton of money. And I think the same way for a sponsor and deal where their money, the bulk of its not be made on fees. Right, I think there's certain things you can charge to keep the lights on. But the bulk of their dollars should come from performance within a deal. So having them have that confidence and having them have that long term mindset of...it may take three, four or five years to finish earnings on it, but they have enough that stable elsewhere to provide them the income. Right, I do not want someone who was banking on this deal to pay their mortgage. Right, I want someone who's stable in terms of their passive income, in terms of their properties they already have under management, that if this deal goes south or this still takes a while to know come to fruition, the way that they find it, that their life isn't negatively impacted in a way that they have to sacrifice certain things in this deal to make their life function.

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WS: So important. Everything you just said. There's so many things there and I want to go back just a little bit because I don't think I've ever heard anyone mentioned before that, think about, you know, especially a newer operator or, you know, if they're getting into this space, what are they giving up. I think it's a neat question just to think personally when you're talking an operator getting to know that reveals a lot, right? About how their dedication to this business and getting in. I just think that's very smart. But you said, you know, look at previous careers, you know, as part of that. How much equity, of course, you know, are they investing in the deal? And above the acquisition fee, what are they making up front? And I would say, on that note, that it's important that the operators do make some money up front a lot, it costs a lot. So much time, I mean...

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SS: It's also a risk, too.

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WS: Right. That's right.

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SS: Right now you're seeing hard earned money go hard right away to be competitive in deals where you might lose six figures in a deal with if you have to walk away from it for the better of your investors. So, I have no issue with syndicators making money up front.

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WS: Yeah.

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SS: I have to make sure that if you feel goes through, they're putting more into deal than the money they're making up front.

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WS: That's right. Yeah, you see some kind of 5% acquisition fee or something like "wait a minute" you know..."Wait a minute, what's happening here?" But, I like how you said you know the, you know, GP crushes it, you know, they make money as well, you know, you want to make sure that your general partnership is making money if they are...if the deal is crushing it, you know, they're operating it well, because you're making money to as the passive investor, you should be. But you talked about...you want a GP who has some cash flow already, right? You

don't want them to have to count on that next deal. And I think it's something that, you know, we've just had two or four large projects last year and we've got 10% discounts on, we're $3 million off because we were this patient, you know, we were able to walk away from broker. It goes under contract, and the broker ends up coming back after it falls out of contract we get a discount. And so, you just got to be patient.

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SS: In a few of those deals as well personally.

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WS: Yeah, I appreciate that. But, yeah you got to be patient and you cannot be, you know, counting on the next acquisition fee to feed your family, you know, because that's when you're going to really be pressed to make some bad decisions, right?

So you got into the syndication business, you started getting sponsors, some great questions by the way, you know, what about that first project? How did you know that? You know, I get that question often what you know passive investors it's hard that first one, right? "Yeah, am I really going to hit that $50,000 I've worked so hard for somebody?" you know, how did you get past that and decide okay this is a great option for me?

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SS: So, I probably did 100 plus hours of research from, let's listen to podcast, listen different points of view from people. Like it's awesome how much free educational content there is out right now, right? Podcasts like yours. Michael Vons has a great one, right. There are all these different podcasts that educational content that you can go to hear people with different perspectives than you maybe used to, right? A lot of people on your growing up were doing nothing like this, right so you got to talk to friends and family. They need to be like, "what are you doing?" Right? This is...there's the traditional, you know, put money into a 401k route, right? Say, you know, the corporate jockey for 30, 40 years, and then you go retire, right? Where it's a whole different mindset of buying back your time and your freedom to do those things that you, you want to do right. So I was a big enough believer in it where I was open taking that risk, right. And the way I view these deals as well as like the risk, the biggest risk deals eloquently. That's it, because you're buying a tangible asset, right. You're not buying a stock where the CEO goes on, you know, it gets caught doing something they shouldn't be doing, this stock gets, you know,

cut in half overnight or new policy changes in the stock, right? I think it's a really nice thing that you can't sell these deals quickly. Right, so people get super emotional with money, where if you're watching your portfolio, and it's going up and down, up and down, there's some, there's some stomach ache there. But I worked for a public company previously - that great company, but super volatile, right a beta of close to two. So, you know, looking at that company and I'd equity in a company as well, right watching it, not the best feeling, watching your money go up and down they work so hard for. Where with these deals that you're putting into a tangible asset that, you know, extremely recession resistant relative to other assets that people will always need a place to live. I kind of backed one of my earlier point she was like you when you look you're breaking, you're anywhere from, you know, 55 and maybe 70% of the super high end of breakeven. So you look at is, yeah there's may be a risk of illiquidity yield holding for longer than it should. But this deal will flow cash flow, you know, six, eight, ten percent, while you're holding it as a worst case scenario. Right, so like I viewed as really safe in that sense. Actually, the first thing I did was with you through someone else, but with you. So, yeah, good experience so far.

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WS: Awesome. I appreciate the kind words and honored that you did that. And, you know, tell me what were a couple of things that made you comfortable, even investing with us personally?

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SS: So, the person I invested with had a really similar profile to what I wanted to do longer term. His role was more so on the capital side, work with investors or had a similar story, actually played baseball too, so there's really similar type, you know, comfortability with that person. And then also just more so willing to take the risk of "Hey, if it doesn't work out the worst thing and by money tied up for a few years and I've been a bad break even on right not a huge risk." So more so just knew I had to do something, you know I'm more of a person who feels more rich not taking action than taking action. So I know a little bit left guard rails and others may have not done. They have one CSR seen distribution so very, very comfortable going and doubling down in that area, and more so I think the biggest thing that I appreciate it was the communication style. Right, so for me, seeing, you know, monthly updates, right, seeing progress in terms of videos and pictures that's super important, right so understand the communication style the first year investing with needs to be there. Right, so if you're someone who likes being texted daily, about a deal, right, you're going to have a really tough time finding a sponsor that aligns to your interest. Right, so understand the communication style, right, some better than others. Right, for

me, if I get a monthly update and see things are fine you kind of put on autopilot there, right. Once the first few "Hey, things are going well," they're typically a similar format as well and looking at the deal update, so you can get really accustomed to okay to use a Twitter feed to look at, anything that's a red flag, you kind of look it over and then the next month how that change. But it's a business where you look at the financials, you look at the kind of high level overview and outside of that there's nothing to really dig into, which is the biggest appealing part to myself, and probably others who are, you have high W2 earner looking to create passive income. Where they want to be hands off, right you want to write a check, want to see the updates. When I click the distribution, you want to allow all that mindshare to go towards whatever you're doing in your day job, right? Whether it's your family, whether it's a, you know, high performance job that gives you upside from the variable compensation equity, right allowed to be hands off and get that time back in mindshare. Or if it's down the road and you're using it to buy your freedoms that you don't have to do things, don't want to feel absolutely right doing. Right, I've seen people at W2 jobs later in their career who look freaking miserable. And, you know, they're likely there because they're the family, they're supporting someone, they're supporting themselves. So it is a clear path of, you know, you look at the risk of doing it and first not doing it, the risk of not doing is ending up in a job you freaking hate when you're in your 50s, and you're just doing that because you have to feed your family or yourself. So I think that's the bigger risk of not doing anything versus doing something.

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WS: I love that thought process of, like you said, for yourself. Bigger risk not doing something than doing something. Yeah, the opportunity loss, right? And the learning experience I would say, also even if it's a wrong move, or if you didn't take it you didn't learn anything, you didn't grow and you're probably still going to make a wrong move just later, right? You could have already got that done. Now that's awesome.

Well, we got to move forward a little bit, but I wanted to also...you speak to, going from passive to thinking more about being active, and why you would do that and kind of where you're at in that process.

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SS: Yeah, so I always knew that I wanted to active down the road, I've been thinking actually be this quickly. So I think it actually ties back to sales as well. Right, like you look at sales and you look at the profile of buyer who you're selling to, the closer you understand who that buyer is, and the better you know what they actually care about not just the surface level like they focus on a DNC. Like actually getting in the mind of how they think, that's how you can be really successful in sales. And so you look at, think of capital raising four deals as sales, right you're basically selling a...yourself and a potential deal. And if you look at it, like, I'm the exact profile a person you want to go bring into a deal as investor. So what I was realizing is that I have tons of friends and colleagues asked me "Hey, you know, whatever you doing next week, let me know." So from there, we looked at how can I get involved into deals, right so definitely bothered people I invested with quite a bit to understand what they were doing. I almost use the deals I invest in personally as a very well paid educational course. Right, so you see how they communicate, right what goes into a deal, or what to look for, what questions are investors asking on webinars and things like that. So, kind of figuring out the big believer in owning your niche, right? Like pick one lane and go very, very deep versus being a jack of all trades, master of none. So I figured on the side of it hey, if I understand how potential passive investors are thinking right can likely help cool, a lot of these people together for deals also helping other areas deal due diligence property management, etc. But more so really understanding how do these investors want to be courted right taking kind of a sales tax prospecting to investing, which I think is not done at all today. I kind of seeing hey there's a big need, and also big opportunity to educate. Right, like I knew people making multiple seven figures a year, who have no clue about this, they're putting their money away and freaking index funds. So I think there's an opportunity both where, you know, like, it's really powerful sign something that you generally believe in and you generally feel as though if someone buys Is there a better place than they were previously. So they all that really clicked for me. And it's kind of looking at partnering with operators to, you know, get more people access to deals like this, but they never knew about.

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WS: That's awesome. I just think you see a great opportunity there. And even earlier in our conversation, you were talking about some of your abilities to hire and to find people, you know, in hiring the right people and importance of that and sounds like, you know, you talked about staying in your lane and focusing on certain things is, you know, all that kind of connected, and I know we've experienced that it's like, you know, if I can focus on something it's so much faster and I can do it so much better than trying to be a jack of all trades like you're talking about. And so building that team so important, but even in your face, you're like you're talking about directly, focusing on one thing you're going to go so much further and know it's so much better, right?

And you're going to find those other people that complement your skills.

But Sam, I meant to ask you as well, on the passive investing side though, when you're talking about operator, how do you like to hear things like, how they're preparing for a downturn? Or what do they expect coming, you know, over the next six months to 12? You know, in the market or, you know, as you're a passive investor speaking to operators. What do you like to hear as far as being prepared for downturn?

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SS: So I don't really ask markets like the big question. I wanted like hey walking through a scenario when shit hit the fan, how do you react to that? By walking you through the entire way of played out, because that'll dictate more so how they handle something poorly, right? People can get very, very emotional and reactions. I think being in sales leadership, you kind of lose the right to do so. So understanding people, having people who can handle, you know, things burning around them, you know, and then I can tell you, it's all...I've had previous people I've worked for and with two things were burning around them, they were smiling like "I don't want that," right? But the way I view it is I want somebody to look at it from, you know, a one being the worst day ever to a ten being, you know, you won a freakin' lotto.

I want somebody who lives in the six all day long. Right, there's slightly, you know pessimistic, but still can get stuff done. Right, so then people looking at it like a very clear lens and don't swing either way, but being that, you know, five to seven range, six range, you can stay in that lane and kind of be that person consistently. You'll figure stuff out to religious cheering "Hey, when stuff goes totally wrong, how do you handle it?"

Because I'm a big believer that these deals will pan out since may take longer than normal, but the mark goes in and down turn for a year to, right, two years, three years, count the deal, right at the fundamentals are good enough in the market and the operate on the deal itself, it may just be a longer eloquently period. But I think overall it's going to pan out in a way that you'll be happy with, especially right now I'm a big believer in inflation's coming in a big way. We've put more minds that the economy than we had in the past hundred years in the last, you know, 18 months. So, if people think inflation aren't coming, like, buy things that are tangible assets that will go up with inflation. So, I'm a big believer in that.

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WS: For sure. And yeah, so many great things there. Unfortunately we've got to move forward but couple final questions, Sam. I wanted to ask you, number one thing that's contributed to your success?

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SS: Getting really good at things people hate doing. So if you look at it in sales, right it was prospecting. Like you look at my, you know, first couple jobs, I was working felt like a hundred-ish hours a week the first few months. And because of that, I was on pick out of the bullpen to go build teams to kind of latch on to people who are super successful. So like do the work up front, and do the things people hate doing. If you get good at those things you will always have people want to pay you a lot of money to do those things, because if they don't want to do it. And there's a huge value in doing so.

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WS: And how do you like to give back?

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SS: So I try and spend quite a bit of time coaching - whether it's my reps internally, whether people getting started. I'm also a big believer, and I don't donate any money right now, but down the road when I pass away I'll be giving giant chunks of capital to areas I can more confident in myself managing it until that point versus others. But down the road likely the goal is to start a foundation. I'm a huge animal guy, I have dogs, all the place so likely focused around, you know, human rights with animal.

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WS: Sam, grateful to have had you on the show. I just think you've added so much value to the passive investors that are listening. I know many of our past investors listen and many others. And so I just know, you know, they all wonder about these questions they should be asking and how they vet sponsors and how other passive investors have done that, and so I think you've added a ton of value, so grateful for that.

In...just to get to know you even personally better and hear your story, tell the listeners how they can get in touch with you and learn more about you.

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SS: So, LinkedIn. I'm super active on there - Sam Silverman. My current company is for Prometric or my website silvermancapital.co, great place to get in contact me there as well.

[END OF INTERVIEW]

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