EPISODE 1010

[INTRODUCTION]

[00:00:00] 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.

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Whitney Sewell: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today with me, which you have heard on the show before, or you should have, if you have been listening at any time at all, my business partner, Sam Rust. Welcome, Sam.

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Sam Rust: Happy to be here, Whitney. Excited for today's show.

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WS: Yeah, I am as well. Also, you should have heard that we've been asking for feedback and asking that you go over to the website and sign up on the podcast page, you can sign up for a free gift there, as well as we celebrate the 1,000 show. But one thing that people have been requesting is some more information about Large Bridge Capital’s specific deals, and some things that Sam and I've been working on, and that's exactly something we wanna talk about today, and there's been many shows recently about this subject, but not about Life Bridge Capital specifically. And what we wanna discuss today, Sam, is really just a fund model versus a single asset syndication, and some things that we're considering here at Life Bridge Capital.

Sam, what about a fund, any thoughts on single asset fund versus multi-asset fund that you wanna share just right off the bat, I want us to just break down some basic things about a fund before we get into Life Bridge Capital specifically.

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SR: Certainly. So, going back at our history, Whitney for investors, this is nothing new, but we've promoted single asset entities. So, we'll identify a property, we'll go out, put it under contract, and then bring that before our investor pool. We're starting to make a move towards a fund model where we're lumping multiple assets together, and there's some good reasons for that, that really are beneficial for our limited partners, for those investors that are joining us in these deals.

First, the biggest one is risk mitigation by spreading your money around between a couple of different deals or investing in a fund, and then that fund going and investing in a number of deals we're targeting in Life Bridge Capital fund one, between four and eight deals. You're spreading your capital dollars across multiple deals, and while we've been fortunate to have all of our deals perform, even during Covid, there's certainly something to be said for managing your risk profile, spreading out your investment across multiple assets and then possibly even across different subsets within the multifamily group, which we'll get into more details as we go along.

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WS: In case you are new to the fund model or even syndication that were talking to people, you don't know what that means, but oftentimes we're talking about a single deal that you would be investing in as the investor, as a passive investor, limited partner. So, you know that project, you are investing all your capital into that one project and what Sam was talking about here what we would call a multiple property strategy, where that same investment that is gonna be spread across numerous properties, so you receive possibly geographical diversification, but also cash flow diversification to which I think what Sam's referring to here.

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SR: Yeah, another aspect where a fund is really helpful is when we're negotiating on deals. It's no secret in the broker-seller communities that indicators are a little bit of the red-headed stepchild when it comes to being awarded deals, particularly those indicators who wait to raise the capital until the deal is under contract. Right now, there's so much capital floating through the markets, and we were fortunate in 2020 to really win a good number of deals that we were chasing because there was fear in the marketplace, there was uncertainty because of Covid and a decent percentage of capital was sitting on the sidelines, waiting for clarity.

Well, that clarity came, I would say probably January, February of ‘21, and we're seeing a lot more bigger private equity groups that can stroke a $50 million check all cash to close properties, and so if you're a seller and you're presented with two very competitive offers on price and terms, but one of them is a group that has to raise the capital and the other is showing you their bank account that has $50 million in it, it's a pretty easy choice with you to go. But we've been left at the altar, so to speak, many times through the first half of 2021 because of that, because we've been very competitive on price, our terms were good, but there simply just wasn't that trust factor that we could go out and raise the capital.

Even though returning investors know our deals tend to sell out pretty quickly, so we wanna flip that back in our favor. One of the advantages of investing in a smaller firm like Life Bridge Capital is our flexibility, we can respond to changing market conditions a lot faster than maybe some of our bigger private equity brothers by raising the stack of capital up front that's gonna allow us a lot of flexibility, when we get to the negotiating table, it'll level the playing field and result in us, I believe, winning more deals, even a possibly lower prices than we would otherwise have to pay, because there's not gonna be that stigma attached with not having the capital fully discretionary.

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WS: No doubt about it. And I talk often on the show about, or I get this question from investors, what should I know before investing? I always say, “you know what, the operator's character is something that is most important, you're investing in that first and foremost.” But in a fund like this, you're investing in the fund criteria as much as anything, and that's what the investors are seeing up front. Often they don't know the deals, that's something that Sam and I reminded to some point, and what we call a seed deal, which we'll talk about a little bit in a moment, but the criteria of a fund. Sam, what are some different things that you think about when you think about the criteria that an investor needs to know before they're investing in a multi-asset fund like this?

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SR: Well, I think you need to know what kind of assets the fund is going to be chasing first and foremost. Again, if you're a returning Life Bridge investor, you've seen us push a number of value-add deals over the last three years or so, both in Colorado Springs and in the Boise, Idaho MSA. So to kinda refresh on our macro strategy at Life Bridge Capital, since we're talking about this, we generally focus on Rocky Mountain metropolitan areas are broad investment thesis is that people are moving in from the coast and they want a high quality of life, they want maybe a little lower cost of living, they wanna live in a governmental area or a state where there's not as much regulatory burden. So, California is out maybe, or in Washington, both are pretty anti-business when it comes to some regulations and so states like Idaho, Colorado, Utah, all very tech-friendly, crypto-friendly and just generally friendly to business. And so, we wanna take advantage of those demographic trends that we believe are gonna cause these states to grow faster than the national average over the next five to 10 years, and by value add deals in those spaces so you've seen those value-add deals, you've also seen as pivot slightly in 2021 and push out a couple of development deals. We've got three development deals right now that are either under construction or we own the land and we're getting ready to begin construction, all of those are in the Boise MSA, we really believe in the Boise market.

The numbers from an economic and growth standpoint or just staggering single-family homes are up 40% year over year, rent is up 15% year over year. Occupancy is at all time highs, pushing 99%. And as a result, it's been pretty challenging to find anybody willing to sell existing products. Castellan is still pretty low. We have good connections in that area, my family lives in that area, have a lot of connections there, and generally, we believe that the BoiseMSA is probably a top three market for development right now across the entire country. And so while there's a little bit more risk, certainly inherent with development, there's also significant upside.

And so, our investment criteria in this fund is we wanna mix about a third of the capital that's raised will go towards development, no more than a third, it may be less than that, and two-thirds is gonna go to value add deals. And so, by blending a little bit within multi-family specifically, some value adds, some development projects, we believe we're raising the floor, and so we're pushing off some of the risk that's inherent with development by limiting the scope within the fund. But we're also exposing ourselves to greater upside because we already have a seed development deal, El Monterey, I should be a 76 unit townhome style for rent product. We're really excited about that deal, we've actually already bought a property and then we're gonna bring in the fund and complete the capital required to go ahead with construction.

But generally speaking, we're looking at much higher returns on a development deal, even with pretty conservative underwriting. So, we wanna provide that unique strategy to our investors as a way to continue to generate above average returns relative to the marketplace.

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WS: Often a big hold-up to a fund is people say, well, blind fund or some investors will say, “Oh, I don't like that. I don't know the project or I don't know the exact deal or the market,” and that's one thing I love about this, and where we already have some projects under contract that we call like a seed deal to investors will know the first project or two as they are committing to invest in the fund. I know you mentioned the El Monterey. Anything else about the project specifically that we have under contract you'd like to share at the moment?

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SR: Yeah, so we've outlined El Monterey, that development deal that's nearing breaking ground, I would say in the next six weeks or so. We've also got a value-add deal under contract, we're calling it the Vail Valley portfolio. It's about 140 units split between a couple of properties in a couple of towns just west of Vail, near the Summit County Airport in Eagle and gypsum. We're really excited about this value-add deal, it's relatively newer construction, one of the assets was built in 2017, the other one was finished in 1999. But it is a really unique deal in a really high-priced sub-market and with a lot of rent restrictions. And we managed to pick up some of the only properties in the entire county that don't have either some form of income restriction or deed restriction, IE, the tenants have to work in Summit or EVO counties. And so by buying into these projects, we believe they're gonna position really well for folks who wanna work remote, we wanna live close to where they play, looking for that different quality of life, wanting to get out of the downtown Denver core and willing to pay to live that different lifestyle. These properties have been almost 100% occupied through Covid, and even going back to 2019, they've got a very strong history.

It's more of an operational play, so value-add there's a lot of different flavors. We've done a little bit of everything, we've done a heavy value-add, we've done light value-add, a lot of 70s products here at Life Bridge Capital. These are a little bit newer and they were run by a mom and pop property management operation, kind of a one-man, band, we're gonna bring our partners from

Colorado Springs in Denver up to the mountain area and really bring those best-in-class practices that's gonna allow us to push rents, drop expenses, and generally get into an asset that's gonna cash flow very well right from the start so very excited about the two opportunities that we've identified at El Monterey on the development side, and the Vail Valley portfolio on the value-ad side.

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WS: Now, you know something else, Sam, I think that's important if some investors have questions about, is our team and who's managing the projects? Things like that, and I think one thing we've done well at Life Bridge Capital and we've worked really hard at, I should say, it's finding just class A talent, whether it's an assistant to now even an asset manager, somebody that we're bringing on board that has that skill set and talent to help us move forward very strongly as we grow and especially moving into operating a fund and numerous assets, again, that we're adding to our portfolio. But, one other component to that is our property management team and partnership, who I think are extremely qualified, we've had great success with and understand these markets. They've been in the market for 30 years, but anything you wanna highlight about our property management team and just the management system that we have in place?

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SR: We have some of the best partners in the industry, I believe. Our strategy is generally to look for locally-owned groups that have a significant presence in their markets, locally owned because they know the area, they're close, they boots on the ground ownership is in the market, they've got a long-term experience in that marketplace, so Table Rock residential out of Boise, Idaho owners have been in property management for 25 years, live in the Boise area and have many years of experience managing in the Boise area. Tarak has actually grown pretty significantly since we started with them just a year ago, they're now the largest multifamily specific property management firm in that MSA. They performed outstandingly for us, and then Donmar Property Management manages all of our assets in Colorado. Cristal and her team have been in business for over 30 years, tons of experience in that marketplace, they know how to get apartments lease, they know how to turn apartments efficiently in the wealth of knowledge both from Table Rock and Dunbar has been critical to our success. One of the areas that I'm really excited about us growing in is our asset management for investors, it's myself for acquisitions and asset management, there's a lot to manage, especially as we're getting ready to raise this fund and we're gonna have more capital to place, and we're chasing quite a few deals right now.

So, we're really excited to announce that Clay Allan has joined our team as an asset manager. Clay brings 20 years of experience working for GE Capital and Harbor Group, among others, specifically in asset management, and there's a little bit of nuance there. Property management and asset management are not the same thing. The property manager is on site dealing with the day-to-day in-charge of leasing and all of those things, the asset manager is in charge of managing that manager and making sure that the milestones are being reached, that performs are being met or above, and that expenses are being tracked all the granular details of managing a property, really flip to your property manager, and then that asset manager is just another layer of oversight. So, I'm really excited that Clay's joined our team, brings that wealth of experience, and it's going to free up some of my time to go and focus more on the acquisition side, which is gonna be vital over the next six months.

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WS: Also, Sam, I'm often, you know, investors, what do I expect after I sign up after I commit or I invest? I want us to get into that a little bit. Anything else about the fund specifically you wanna share with our investors and with new investors before we move into that?

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SR: Yeah, I might just highlight our return structure, generally speaking, it's going to be very familiar for those of you who have invested in past Life Bridge deals. We're offering 7% pref with minimal fees including an acquisition fee, asset management fee. Overall, we're putting in only one hurdle, and that's a little bit of a change, you'll see a lot of syndication groups that push out deals with an IRR-based hurdle. The issue with an IRR-based hurdle is that it's got a component of time, and so the longer you hold a deal, the more incentivized the sponsor is to sell because that IRR hurdle keeps pushing out. And so because we're targeting newer deals with our development side of the pipeline, we didn't wanna incentivize to sell those deals off. We believe that those deals are gonna be great long-term holds for us, they're gonna provide an awesome cash flow. We're gonna be able to refinance them pretty early on and be able to return capital, and so we're introducing an equity multiple hurdle, so this fund is set up to be a 10-year fund. There will be limited redemption rights along the way, but our hurdle doesn't kick in and change the splits from 70-30 to 50-50 until we generate a 3x on your equity. So, if you invest 100-000, the split stay at 70-30 or whatever your entrance was, until we get to a $300,000 net return, so that includes a return of capital and then $200,000 of gain on that original $100k, and then anything above that would be split 50-50. We believe that that aligns our interest, the GP, more with the interests of the limited partners.

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WS: Now, I appreciate you going into that, I get that question often as well. And often though, after somebody invests, they do not know what to expect, especially if they're new to that terminology of syndication or fund, or maybe they've just been investing in the stock market or read or something like that. So, a little different, but after they invest in a fund like this Sam, obviously we're gonna have different types of projects, we have development obviously that are gonna be in there, it won't be cash flowing right away, any kind of preferred return that probably has to be cash flowing for an investor receiver per return, right?

And so developments are obviously not cash flowing right away, but we're gonna value-add projects that are... What about distributions? How quickly? And obviously, we do monthly distributions, monthly updates, detailed updates to investors on a monthly basis about every project, but as far as expecting that distribution on a monthly basis, when should they see that? And how does that work?

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SR: So we, lirae capital, believe in really strong communication and giving distributions on a monthly basis, and we've got the systems in place through our software portal and vest next to facilitate that in a way that doesn't take a ton of our time, but we really wanna prioritize communication part of that is just seeing checks every month, or at least deposit, comply, ACH, but we are going to be offering monthly distributions in this fund, those distributions will begin accruing in January of 2022. So, here we are on July 21, we're giving ourselves five months to get either projects closed or more additional projects under contract, and then that preferred return will begin accruing in January. First payments will likely occur in late January to mid-February, and then we'll be recurring monthly after that, and so excited about that with the Vail Valley portfolio coming in, we'll have that definitely closed by the end of the year. Right now, we're targeting roughly September as our closing date, will begin accruing cash flow immediately, and that will help make sure that we can start paying off against that prep and then obviously development deals, our first ball Monterey should finish construction in Q2 of 2022 and should be stable by the end of summer 2022 and will be a significant additive to the fund as well, so we're searching Art for more value-add deals, we are bidding on some, as we speak on touring more properties today, really excited about the deals that are on our horizon and looking forward to being very competitive in those offerings and landing some more deals that will hopefully close before the end of the year.

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WS: One more thing I wanted to highlight, I know after just talking to really thousands of investors now, something that's important is just the flexibility and more and more wanting to cash flow longer in the original model of syndication or often over their past many years has been that, say three to five year hold in. Sam mentioned 10 year hold. And something I like is just the flexibility and something Samoans just if we need to go to hold longer, we want to just cash flow longer and not be made to say that obviously about the hurdles and whatnot as well, but just not knowing what the tax implications are gonna be... Or how that's gonna change. We want options, we want to instill those options now so we can do the best thing for our investors long-term, one other thing I wanted to mention is that it is a 506 C fund, that doesn't mean we can advertise it, we can talk about it on the show in other places, just in case anyone is wondering, 'cause typically you cannot talk about many types of deals for AR 56b funds publicly. So, Sam, anything else about our fund specifically that you thought of or that you want our investors and future investors of ours to know?

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SR: There's definitely tax implications for investing in real estate. There's a lot of folks that pay very close attention, including you and I, and so those of you have invested in past LBC deals, you're used to seeing some decent depreciation losses on your K-1, even the cash flows net to your bank account are actually positive in the fund model, you're gonna continue to see this depreciation benefits, a crew up, they'll be a little bit slower to accrue because of the development piece. But we will run cost segregation studies on all our properties as we have before and once our development deals get their final CBO, we can run a cost segregation study and run it that way.

There's also some really interesting tax benefits for green development. So, not tax deductions, but actual tax credits, we're exploring those, we're gonna take advantage of those and pass those benefits on as well, so that will be the same as with past deals, and something that I wanted to make sure we highlight because that's something that a lot of investors care about.

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WS:

Nice. One other thing I thought of is that often I get this question too, is, are we investing in the deal... I don't... Anyone that's listening or contemplating investing with us tonight, that Sam and I personally invest in every project, and almost probably everyone on the general partnership team usually invest in a big way in these deals, 'cause we personally believe in them in the projects and believe in that alignment of interest with our investors as well, and so just know that, “Hey, we're in there with you and we believe in the project, or else we would not be pursuing them in the first place.”

Alright, Sam. Well, amazing show, talking about it, find talking about our fund at Life Bridge Capital. Grateful to see our growth and just the talent we were putting on the team and the Lord has definitely blessed large capital in a big way, just to the listener, if you are interested in investing in real estate and wanting to know more about the Life Bridge Capital Fund. You obviously, you can go to lifebridgecapital.com and sign up, you can go to invest with us right at the top, and we will get you started immediately, so our team will reach out and you are welcome to also reach out to Sam or I, and if you have any questions in anyway.

[OUTRO]

[0:22:06.7] ANNOUNCER: Thank you for listening to the real estate syndication show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.lifebridgecapital.com for free material and videos to further your success.

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