EPISODE 1040

[INTRODUCTION]

[0:00:0.0] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:01.7] WS: This is your Daily Real Estate Syndication Show. I am your host, Whitney Sewell. Today our guest is Lisa Hylton. Lisa has an interesting background that has given her many great skills in this business, but she's a host of The Level Up REI podcast, which I've also been a guest on, great podcast, she's a founder of LisaHylton.com, we wanna say investment firm that was created for entrepreneurs by entrepreneurs to build passive income and wealth through tax-efficient Real Estate Investments, when she's not mind real say she can be found hiking, pole boarding, practicing yoga, taking evening walk, swimming, traveling, embarking on wine country get-aways and taking new adventures. Lisa goes in depth today, and talking about some issues about funds that are just so prevalent right now, and everybody seems to be pursuing funds, they are... It's a hot topic, and she has a big ground in funds, it's very interesting, before she ever got into the syndication business, she was working where she had a lot to do with different types of funds and it helped prepare her for this kind of business, and she shares different things about the fund type of business model, and we say fund a multi-asset fund type business model that maybe you should be aware of as an operator or even as a passive investor.

[0:01:39.2] WS: Lisa, welcome to the show. I see you all over social media, you are doing some big stuff, no doubt in the real estate business, and I know you have an amazing podcast as well. I look forward to hearing about that. But tell us a little more about your background. I was interesting or we even got started, you were sharing a little bit about your background, and I thought, Wow, it's an amazing experience, and you just have a great background and being able to do this business well, so give us a little more details there, and then let's move forward into your current business model.

[0:02:07.2] LS: Yeah, sure. So I grew up in a real estate family, my father was a contractor, he built 14 apartment units, so as a child, I worked in property management essentially, and he got sick when I was in middle school with a brain tumor... He was diagnosed with a brain tumor, and by the time I got to college, he passed away, but because he made that investment of building those apartments that enabled my family to continue to send myself and my two younger siblings to school and then eventually College. After that, I was really focused on career, so I didn't really think about real estate, we didn't really talk about real estate other than what it was there during that time. So fast forward, I spent 10 years in public accounting auditing funds, primarily Wikis Cayman is a financial center, and we have naturally a lot of funds there, so a lot of account and a lot of lawyers, and a lot of funds are audited and administrated out of Cayman. Then about 10 years at PwC, auditing four years in Cayman four in Boston and two in Los Angeles. I left after 10 years to go work for an investment manager who raises funds, and I worked for them for four and a half years as a controller, taking care of private equity real estate funds.

[0:03:25.9] LS: Before this time in my early 20s, I bought my first place, I bought a two bedroom, two and a half bath town house, I bought it because I loved it. I don't know how many other people out there today have bought property because they just fell in love with it and loved it, and they quickly realize that, Yeah, this does not cash flow. So I broke even the first year, I lost money every single year after that for too, six years, that then brought me to... The first year I lived with it was, I was living in... Cayman every year after that, I was either living in Boston for four years or out here in LA, after I got it in the email for over 1000, I said, Wow, this property has got to go, sold it, and I say the universe has a sense of humor, because it was a year after I sold it, I ended up taking the job working as a controller on these real estate funds, and quickly realize, Wow, there are people out here making money... I'm losing money investing in real estate, you just need to know what it is that you're doing, and that started my education process of to where I have gotten to today.

[0:04:30.7] WS: Wow, it is interesting, you bought a best real estate where you went to auditing funds, real estate funds, and then when did you decide to say, do your own business or your own real estate business as well, you must have noticed that there were some ways to make some money in it though, as opposed to it the way you first started...

[0:04:48.1] LS: Yeah, definitely, you know, it took a little while before I got to the point of wanting to build a business, at first I just wanted to buy a place here in Los Angeles, a duplex, live on one side, rent the other, quickly realized that the price tags were over a million dollars. And after buying them, you'd need to put even more money in to bring it up to where it needs to be. And I was just like, Wow, this is way out of my league. So I then went to turn key properties, so I was looking in Detroit and Alabama for turn keys, but my earlier experience made me a lot more conservative when I looked at properties and ran the numbers, and I just couldn't pull the trigger. And then eventually, that's how I ended up about a year or so, two years or so later, is when I discovered real estate syndication randomly... I wasn't even looking for it. I was at this personal development program and I met a woman who was in the program as a participant, and she was a real estate syndicator, and that's how I got introduced, not right away.

[0:05:50.3] LS: It just so happened that we continue to be in the same circle, and someone close to all of us decided to exchange business cards, and I saw that she was a real estate investor, and I was like, Oh, I'm a tree to... Started learning, and that's when she introduced me to my first real estate syndication, and since then I've invested in five to date.

[0:06:11.1] WS: Nice. No, it's interesting where our past take us, so I'd love to talk about is the fund business model a little bit and pros, cons, some of those things that because of your experience around that, I think it would be great to hear some of that. I think the listeners would appreciate that the fund topic has grown drastically over the last year, probably, or if not more, but I've just heard more and more and more people talking about it pursuing doing a fund, and I think that would be very beneficial with your experience level. So I would love to hear some pros and cons or maybe why you would do a fund as opposed to not, or did you invest in a fund personally or not, and maybe some thoughts behind that.

[0:06:50.3] LS: Yeah, so the first thing I like to tell people is that you have single asset vehicles that are considered funds to some degree, and then you have the Blind funds, so typically you have... Those are the two options. And then within that, you then have your capital called funds and you have your capital commitment funds, so with the single asset vehicles, you know what investment you're investing in, so that's the pro... You know what you're investing in? You can do... You're underwriting, you can look at the markets, etcetera, etcetera, pretty straight forward, and then in terms of the type of funding, it's usually cap call, so you fund 50k one time up front. That's it, finished. On the blind fund side, you have the option of either capital or capital commitment, so you could be investing a blind fund and it's just 50k one time, or it could be, okay, you're gonna commit half a million or maybe a million dollars and we're gonna call 200,000 now, and we are gonna call the rest over the next year to two years, so there's a lot of pros and cons to that. With the blind fund, typically very usually multiple assets, so that provides diversification as opposed to that single asset fund, which is typically how most syndication are set up, however, on the other side, you are then depending on the sponsor, which isn't necessarily a bad thing, if you trust the sponsor and the sponsor has a very strong track record, then it can make a lot of sense for you because now you have 50k or 100K or 200K now in this fund, and maybe the fund is going to invest in five, six, seven, maybe even 10 or even more investments, and to the extent that you're comfortable, once again with the investment strategy, the return profile of this fund and the fees connected to this, fund those are the three key things, because you're also comfortable with the operator, it can be a very good way to invest because your money is going farther and technically a little bit safer because it's across different asset classes, so that's just some of the pros and cons.

[0:09:04.8] LS: I have not personally invested in any funds as yet, I should say any blind funds or multiple asset... Well, I have done a multiple asset fund, but it was identified in the very beginning, so we knew that we were buying two assets, so... Yeah.

[0:09:21.3] WS: Okay, that's some great information, especially for those who are maybe brand new to thinking about a blind fund or they call, sometimes a multiple property strategy or is it multiple asset or as opposed to singles at which you talked about now, I just think it's great to think about being diversified across markets and even cash flow diversification as well, is that something just in your experience you've seen to be important as far as cash flow diversification is also...

[0:09:46.9] LS: Yeah, honestly, I like it as a business model because when I think about a fund, I think about a recession-resistant fund, for instance, that would have like... If you think about quarters, 25, 25, 25, like 25% multi-family, 25 self-storage, mobile home parks, and then maybe another asset class that just gives you the investor... If they're investing 100K or 200K into that fund, I feel like as though it just provides them with a lot of diversification that they don't have to go find a sponsor in each of those different asset classes, if you're working with someone who's then being able to provide that opportunity to you, I think that is a really great value add and a way syndicators can sort of differentiate themselves as well with their experience, so... Yeah.

[0:10:39.4] WS: Yeah, no doubt about it. Often, I'll hear people say, Well, I wanna know what the deal is, or I'm not sure I wanna invest in a blind fund, and sometimes I say, well, I completely understand. However, even handing $50,000 $100,000 to an operator and you know what the deal is, you're still trusting that operator... 100%, right. Yeah, it is great to know the market, you do understand some of those things, but I feel like after somebody has a track record, a fund could be a great way, like you said, to be diversified and hedge against some extra risk, what about... You talked about investment strategy a little bit, what are some things that say the listeners should be thinking about as far as an investment strategy, I know we've talked about maybe a little bit, but anything else that they should be considering when looking at a fund...

[0:11:24.1] LS: Yeah, one of the key thing that they need to think about when they're looking at a fund is deal flow of the operator. Very important. So what do you mean by that? Especially if it's gonna be a blind fund, if it's a single asset fund, you already know what the asset is, so it's a mute point water underneath the bridge, but if you're raising a fund and you're raising 100 million, fund or whatever, it's gonna be very important that that operator has the ability to source and find deals, because if they do call all that money, so like they call 100k from investors or they raise the entire whatever 100 million that they're trying to raise, right. They might not necessarily be able to deploy all of that all at one time, so what happens to investors capital while it's sitting... Waiting to be invested. There is no right or wrong here, but you just... As an investor, you need to ask questions to understand what the plan is typically in the institutional space, the moment you call capital, the preferred return begins, however, in this space here, which is not the institutional space, what I have seen is that people might do a 2-percent or a 3% return in the interim until they sort of find that next deal, things like that, at the end of the day, you just wanna ask the questions, I make sure you are comfortable with the answer, whatever the answer it is, if you're comfortable with giving your money into that deal, then with those terms then that ultimately is up to you.

[0:12:56.9] WS: I think it's so wise, I'm glad you said that having the question, What happens to the capital if it's just sitting there and you need to know that. Right, and I was saying, I haven't heard that spoke about too many times as far as the deal flow, like... Do you know what their deal flow is, Do you know they're going to be able to deploy that capital in a timely manner, but not be rushed to do it either, right? There's like a Peter data there, but you also mentioned like fees... Can you elaborate on that at all? So listener or the fees gonna be similar to a single asset fund, or what do you expect or like to see as far as fees? What should they be looking for?

[0:13:32.4] LS: Yeah, you know, the fees should be fairly similar to a single asset fund, give or take, as you get into multiple assets, I do think that you now are gonna be dealing with having an administrator because for some people probably already have an administrator when they're dealing with just one asset. But I think that for a lot of people, they probably don't, but if they're now creating a fund, they probably are gonna now need to have an administrator because now you have multiple assets and that just sort of considering those kinds of costs as well... The good thing about the fund space, and you just wanna double check your city share, similar to the real estate syndication space, you just wanna make sure that the returns that are being presented are always after fees. I think that's really key to ensure that you have as well, and most are, but you just wanna double check just to be sure.

[0:14:27.4] WS: Yeah, what about just even the structure or splits or anything like that for a fund versus a single asset... Fund or syndication.

[0:14:36.9] LS: Yeah, great question. Typically, they are very similar to the extent that they usually have a preferred return, I know a lot of syndicates have preferred return structures already, but they are many that don't have that, but usually in the fund space, you typically will have a preferred return and you will typically have some kind of Waterfall as well, so a 70-30 split up until an IRR of maybe 15 or even more, 19%. And then anything over 19 is then split 50-50. Those kinds of things typically are expected when you get into the fund space, and it can get even more complex than that, even catch-ups as well for the general partner, but usually that's usually at the institutional space.

[0:15:25.6] WS: Anything else around the fund or how the funds being operated or anything else like that, that may be an LP or past investor should be asking that you can think of.

[0:15:33.4] LS: I think that making sure that you understand what the reporting communications are gonna be like, typically, once people get into the fund space, you will see quarterly reporting be it partners, capital statements that show what you've contributed and your different distribution, your portion of income and expenses, and that train of staff, I think by and large, similar to the regular syndication space, you want to ask about how people communicate and so that way you feel comfortable, Okay, do I want to invest in this fund? Am I happy with the level of communication that they plan to provide.

[0:16:13.1] WS: No, doubt, ask for examples. Right. Show me, show me. So importance of a good market, you and I talked about this a little bit before the show, but I thought you had a great example, and I want you to be able to share that with the listeners.

[0:16:26.5] LS: Yeah, sure, so I was sharing with you earlier that in 2019, I did invest in real estate syndication, it was multi-family, about 600 units in Atlanta, and that deal experienced a lot of during Covid, the business plan to execute the value add strategy was affected. It was a class C property, and they just were not able to go in and do the kind of renovations that they wanted to do, plus the tenant base was unable to pay rent to the way that they would want to have had them pay rent in order to hit the type of returns that they were anticipating, so because of that, they then had to pause throughout the entire 2020 and then starting in 2021, they're able to put the asset on the market and ultimately sell it at a 30% gain. So it's like the thing that I was pointing out here is that the importance of investing in a really good market, because even though the assets struggled through covid and was unable to perform, and I looked at the quarterly, I could see that the NI was going negative. Even though that was happening, they were... That because they were in a really good market that was experiencing that appreciation and value, they were able to sell the asset, preserving investors capital and at least giving them some gains to then move on with their money within 20 months.

[0:17:50.1] LS: So I think just a really good illustration of the importance of making sure that you invest in really strong markets...

[0:17:57.5] WS: Yeah, no, that's an incredible... I'm thankful that I could sell it for a game... That's definitely a win. Is there one or two things you could say that spoke to that market or that really help that market or something that into some kind of indicator that would help you to see, Hey, the next market that looks similar or something...

[0:18:15.8] LS: I would say number one, that market re-opened a lot earlier in the face of covid than many... Even the market I love is I live in Los Angeles. We literally just opened maybe, I don't know, a few months ago, where those markets have been opened, that was in Atlanta, they've been open for months now, and granted, I know it's very controversial with covid. However, in the sense of being able to execute on the business plan and being able to sell, that really helped because people were moving to that market, so there was still a lot of migration and a lot of jobs in that market as well, so that helped in terms of even though we were unable to be in a good place to execute our business plan, it still is a great asset for someone else to then buy and then try to execute the business plan going forward.

[0:19:10.0] WS: Population and job growth. Very important, very important factors.

[0:19:14.3] LS: Business-friendly, business-friendly states. So important.

[0:19:18.8] WS: What about... How do you prepare for a downturn, we're thinking about a fund or what are some thoughts around that, or maybe even as a passive investor, or what you like to see in other funds or operators?

[0:19:29.5] LS: Yeah, so for me personally, in terms of preparing for a downturn, I think that it's really important to diversify your portfolio, I'm glad that I chose to invest in a variety of different classic classes, so I'll answer this question from the way I invested in my portfolio, because I have invested in five, I have exposure, I had a C, I had a B minus, I had Bs and a minus, and then an industrial asset. So for me, I think it's really important as a passive investor to diversify, to learn about other asset classes, and especially the ones that are known to be recession-resistant, such as self-storage, mobile home parks and certain multi-family classes as well. I prefer to stick in the B asset class for multi-family, it's not always easy to do so, but I think that it's just that sweet spot right in the middle of when things go up and down, you still have really good tenants and you're still collecting rent and I think that's really important. I think also having reserves, so working with operators that are conservative in their approach, so I've been recently asked, when you have an asset that does a preferred return, like say 8%, whether the rest of the cash flow, if you have more cash flow than the 8%, if they are distributing that, and I said I've worked with operators in the past who actually reserved that money because they just wanna make sure that if anything happens that they at least have some cash on hand that can...

[0:21:08.8] LS: It can take them through some stormy days because you just never know when something could happen, and that's true for even another asset that I had in the Atlanta area, we just saw that as well, and it did very well. And the operator took that approach, she did the 8% return for the RAF, but she capped the reserves and then now here on the back and she is distributing those reserves, so I'd rather be in a position where we're protected and be safely land than crashing.

[0:21:42.7] WS: Yeah, I could not agree more about having adequate reserves, and yes, if you don't have reserves you by resin, the cash flow, you have a cash on hand and stuff, it's the fan. It's usually not just one thing, it's not like just a pandemic, you don't wanna just be able to survive a pandemic, you wanna go to alter survival and 12 AC units go out at the same time and 25 people move out or something crazy all at the same time now, I appreciate you just elaborating there in a big way. That's great. What about any predictions you have for the real estate market over the next six to 12 months, tell us really... What's gonna happen here, Lisa?

[0:22:19.9] LS: I wish I had a crystal ball. What I would say though is you have a very low interest rate environment, right. And as a result, you still have a lot of people competing heavily to buy single-family homes, so in my opinion, I feel like good multi-family acids are going to be in demand for a long time into the future. In my opinion, based on reading that kind of information, plus you have the large investment managers like the one I worked for before who are purchasing in the single-family space, which makes a single-family space competitive for people... Everyday people to continue to buy from someone who is interested in buying and continuing to purchase multi-family, I feel that to the extent that you purchase them wisely and don't over pay, of course, you will have a really good asset in my opinion going forward, so... Yeah.

[0:23:19.0] WS: Yeah. No, that's awesome, and I will have to move forward. I wanted to ask some more questions, but I... Latimer, what about your best source from meeting new investors right now?

[0:23:28.6] LS: Two places, I would say, one is through podcasts, is one of the great places I meet just being on podcasts, and the second is going to meet-ups in person as well as virtual, especially virtual ones that are open for real estate investors who are just trying to learn about real estate. For me, at least, is one of the greatest places to meet other investors who might be interested in either partnering or investing passively.

[0:23:58.0] WS: Is that through meetup.com or... How do you find those?

[0:24:00.7] LS: Yeah, meetup.com primarily is the way I find them, but then also I just keep an eye on LinkedIn and then also Facebook Events, but primarily meetup.com, so yeah.

[0:24:11.6] WS: Okay, and then a lot of people are wondering that as well, but what about a couple of daily habits that you have lead so that you're disciplined about... That have helped you achieve success?

[0:24:19.1] LS: Yeah, totally. Number one, meditation. Number two, I exercise every morning. And number three, I would say, you know, just believing in myself, even when things don't always go right, I just sort of being able to pick myself back up and say, Okay, listen, what can I learn from this experience? And just keep moving. Keep moving forward.

[0:24:42.8] WS: What's the number one thing that's contributed to your success, if you had to pick one.

[0:24:46.1] LS: Willingness to look at white failures and to learn from them and not be handcuffed to being in the place that they might bring me...

[0:24:59.4] WS: That's great, I'm making a note of that. 'cause that's good. That's good stuff. Yeah, it can't be held down by fear, I've mentioned it a bunch lately, there's a book called Who Moved My Cheese, if you haven't read it, it's so simple, but it's really good, there's a kids version, and I always say, I started reading it to my boys and they were like four and six. And one of the phrases in there, it says, What would you do if you weren't afraid? You know, I think about it. Now, my cheese, go buy that book today, it's really quickly, but tell us how you like to give back...

[0:25:28.4] LS: Yeah, so one of the ways I like to give back is I like to get on calls with fellow entrepreneurs, especially really beginners in their early parts of their journey to know, strategize and talk about business and talk about... Some of the lessons I've learned that have been painful along my journey that they can probably learn from to fast track their way to where they need to go, so yeah, that's one of the ways I like to get back is being able to do that and just connect people to opportunities that they probably would not have had if they hadn't gotten in touch with me.

[0:26:04.5] WS: Lisa, it's been great to have you on the show and get to know you a little better and hear your story and really jump into the fun model a little more in depth than maybe we have many times, and so I just appreciate you being willing to share your expertise there, it's interesting, just your background in that before even getting into this space yourself, and so... Just some great experience there. Thank you again, tell the listeners how they can get in touch with you and learn more about you...

[0:26:28.9] LS: Yeah, sure. One-stop-shop place, so you just go to LisaHilton.com, you'll find my blog as well as my podcast there, the level of REI, and then I do have a free e-book, which is A Beginner's Guide to Real Estate Syndications, and that's also to do come back. So really simple.

[0:26:51.7] 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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