

EPISODE 1101

[INTRODUCTION]

[0:00:01.6] **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]

[0:00:24.3] WS: This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Spencer Gray. Spencer's a serial entrepreneur, multifamily investor and founder and president of Gray Capital, a real estate investment firm based out of Indianapolis, Indiana. Since founding the firm, Spencer has been involved in over one million dollars in real estate projects and invested in over 90000 multi-family units, Spencer has built an amazing business and brand and has probably grown a platform to be able to raise more money than most that I've heard or even had on the podcast, and so he lays out, when we talk a little more in depth about his specific platform, we go from the investment club that he's created, to Google Ads, to building your own platform, different strategies, to working with family offices or not but even some things he calls multi-family offices and some multi-family real estate, but it's multi-family offices, numerous family offices that are together or maybe have one spokesperson that you're working with, and so he goes into that, but also the tech side of his business that he lays out that he uses when he is raising money from investors and what that looks like, I knew you were gonna learn a lot that if you have a syndication business, commercial real estate business in any way, you're going to enjoy the show today.

[0:01:48.9] WS: Spencer, welcome to the show. Let's talk about how you guys started with working with family offices.

[0:01:53.0] SG: It's a different space, it's a unique space, there's a lot of similarities and then some big differences working with an individual, and then a family office, and now family of is... It's a broad category. There are some family offices that function like institutions, billions of dollars large, we have dozens of staff members, investment committees, then there's also some family offices

where it is run by the family, or maybe it's the family and one investment advice or a very small staff. But the big difference is there are typically systems in place is much more, I guess, institutionalized through their specific criteria, but at the end of the day, it's really about forming that relationship and getting to a level of where they very much trust the operator, that manager, they're gonna be working with... So, in general, that sales cycle is typically much longer where you know, we may have an individual investor come on our platform, they may be ready to go in a couple of weeks, family offices, it's more of a conversation of months, if not a year, before they feel comfortable, they see the projects.

[0:02:56.3] SG: And so we've worked with both individual single-family offices as well as multi-family offices, and then we actually a lot of success with the multi-family offices, which is essentially a wealth management firm that is acting as a family office for multiple families, and it's been a creative or business, because instead of just working with one group or a lot of different individuals, different families, by approaching this one multi-family office, if they're able to do diligence upfront and then make a recommendation to the families that they represent, basically handle a lot of that back end, really pitching the deal itself, pitching us, even a lot of the administration at the back end, but we really have one point of contact, so it allows us to be much more efficient with our capital raising because instead of raising millions of dollars from dozens of individuals, we can raise tens of millions of dollars and one point of contact... Now, they all work a little bit differently, but if you can check all of the right boxes, and if you gonna align yourself, and it does take a little bit of making sure your brand is aligned and you recheck all the boxes from a track record, but if you can, and we make that effort, it's a huge space, and just with the incredible demand for any type of investment that has any kind of substantial yield, there's this huge global chase in yield and return, and multi-family investing is really in the sweet spot that a lot of family offices, individuals everywhere, trying to get into.

And again, I'm looking for that right avenue, and you're really helping special on the multi-family opposite, you were really helping that firm provide a service and an opportunity to the families that they represent. They are looking for opportunities, they're just trying to find the right partner to be able to provide, so it's really a win-win from the multi-family office side as well as our firm, and it's one of those things they can just... I can accelerate your ability to raise capital and do more deals, and that's what it's done for us.

[0:05:00.0] WS: Somebody getting started in the syndication business and raising money, it's so intimidating when you have that first conversation with an investor or maybe you start having the

second one, and the third eventually starts getting easier, you see the... A lot of times, the same questions, and you get more and more prepared as you go along, but I think oftentimes, people hear about family offices like I get a whole another level of intimidation oftentimes, I think that kinda comes on to my shoulders when they think about working with a family office, tell us how you got started with working with the family office, and so listening that says, You know what, that may be a good option for me as I'm just not able to go out there and connect with 200 investors. How do they get started?

[0:05:38.8] SG: There's a handful of ways to get started. So, there are family office conferences and meetings that take place just like there's multi-family conferences, and I started attending some of those events, and I'll be honest, they're not the cheapest conferences or events to attend because obviously there is some gatekeeping involved and they only want serious large managers, and so I really was... Back in 2019, I decided I'm gonna make an investment and go to... Start going to these conferences. I spent a decent amount of money that you're just attending just to kind of get in that space and to learn more about it, and so if you don't have the network already, there's some gate-keeping that sometimes you have to pay, but once you get in that world, you realize people are just still people, and no matter what, astride had the conversation with every different type of investor is very institutional to just learning about it, and at the end of the day, you're talking to a person, you're trying to form a relationship and at least my belief is people wanna do business and work with people, and this is nothing I'm making up, but they like know and trust.

[0:06:40.3] SG: And if I confirm that relationship with these individuals, and again, these are very sophisticated organizations, if I will look at the resume, and I just got back from a family office conference last week, their resumes, PhDs, and every type of investment strategy and economics that you want, and my palms are definitely sweaty before I had these conversations, but then they look at you and you're like, Yeah, I've developed this super complicated options strategy, but we need to figure out this Real Estate Investing thing, and we haven't figured it out and we need some help. And then all of a sudden, you're in a position to help these sophisticated groups that surprisingly aren't always allocated to commercial real estate and multifamily, and so it is intimidating, but it as intimidating is talking to that first investor, you have that conversation with... And you just kinda have to do it, the more you do it, the easier it gets. And if you believe in yourself, and if you believe what you're doing, if you believe in investing a multifamily and you have the ability to execute, there's nothing you need to worry about, it's just showing up and having a conversation and just being a real person.

[0:07:42.0] WS: It really goes back to even the mindset shift to that first investor, You're still offering an opportunity for them, you're not just asking for money here from your, say your father-in-law for your random business.

[0:07:51.9] SG: Exactly, that's what I tell our team in our investor relations guys, is that it's not like we're selling them some widget that they don't need, we're providing an opportunity. We're gonna make them more money. If we don't believe it, then we've got a major problem, but like This is a great opportunity that we're investing in, we're putting our own money in, and we think everybody should, not just because we're trying to put these deals together as great, but we think... I tell my family, my friends, I'm like, this is something that I think you should do, and the reason why we build out a platform is because I believe that it's a great asset class that more people should be allocating themselves towards. And if we can help people do that, then that's just a great opportunity to be in.

[0:08:28.0] WS: That's awesome. Well, we're running low on time, unfortunately, I'm sure I'd love to have you back on the show. There's so many things we could talk about. I wanted to ask you quickly though, it's the listeners often ask like tech that you use around the capital raise process, how you simplified that, if you could just highlight some of the tech pieces that you use that helps with that.

[0:08:47.0] SG: So right now, for our tech stack, I guess as they say, so our CRM or using HubSpot for our CRM, using I am as such a RealPage product for our investor portal itself, and which... And then we're using a verify investors, we do 560 raises now we verify investor to verify the credit investors, we're actually going through a redesign of our website, we're doing a little bit of a rebrand that we're gonna launch in Q1 of 2022, so we're kind of in the process of that right now. This is kind of our key, I guess, components of our technology stack, we've got a handful of other smaller pieces, but those are kind of the core elements to make it up.

[0:09:26.0] WS: And even a little deeper than that. How does an investor know about your opportunity to invest, and then how do they sign up? What tech are you using like for them to sign up and get started?

[0:09:35.0] SG: The best way to be notified of opportunities is to join our investment club, and so graycapitalLLC.com, there's a button to join the club, if you join that club, that'll put you in the

queue to get up to...as soon as we have a new project, and we typically also will use a landing page for folks who are already in the club, maybe they're a little bit intimidated by joining club, it's free to do, but we'll have a landing page to gauge interest that we publicize on social media, through advertising as well, but the best way to get notified is by joining the club, is basically the way we roll out our projects is we let our existing investors know first, we let investors who weren't able to invest our lab project node next and then it goes to all the members of our investment club before we roll it out to the general public. So, the more involved you are on the platform, the easier is to get that information, but graycapitalLLC.com and join the club is the best way to kinda get in the loop.

[0:10:35.1] WS: Okay, well, a few more questions, thinking through just the current market and where we're at, everybody talks about the next six to 12 months and nobody knows... We never know what's gonna happen, right in the next six, 12 months, but ultimately we don't know, so how do you prepare for a potential downturn, what you like to see and that project makes you feel better about moving forward right now with the unknowns.

[0:10:55.1] SG: Simplest answer's cash flow, it comes down to you what kind of cash flow is in place on day one of acquisition, and then what is our ability to increase NOI out of the gate, things that are not market dependent, so it's great that we can raise rents, there's a huge gap right now between in place, ransomware rents a... I think a lot of people are targeting that, but even I think it's a low probability if the economy absolutely crashes, you can't raise rents over the next two years, you need to be able to hold on and have this current implies cash flows be sufficient enough to get you through any kind of storm. So really what I'm in, there's tons of KPIs that were focused on, but its basic as it is, cash flow is the life blood of any business. And so, if they're strong in place cash flow and then with an opportunity for us to maybe increase that cash flow by direct management efficiencies, that's really what we focus on out of the gate, and then obviously look at having healthy reserves. That's the other thing that we've learned over time is, I'd rather over-capitalize a project than under-capitalized, and we started out...

[0:11:59.3] SG: I think we were just... We added a couple of deals where we're just a little bit skinnier on our excess reserves, and even though bringing excess reserves lowers that overall returns to bring more equity to a project, it's all a balance of risk and return, and so bring them our equity, it lowers the return, but it also lowers the risk, and so by having an extra half a million dollars in the bank account to know that I can cover that service, if there's something that pops up that whatever it may be, we're good because we're just... We're focused on preservation of

principal because he loves the project, nothing else matters, and so preservation of principal, cash flow, and there are two keys that we focus on.

[0:12:39.0] WS: Couldn't agree more, cash flow and reserves. Oh, man, we closed a project a week before they shut the country down last March, and we had a million and a half dollars in reserve budget, the big renovation project as well, but some investors like, well, that hurts the returns and like, Hey, we're gonna sleep a lot better at night and then the country shut down a week later, and obviously everybody's pretty happy that we did that, so... I couldn't agree more. Great answer. What's a way you've recently improved your syndication business that we could do about ours.

[0:13:07.1] SG: Well, I guess the biggest change, and I'm not sure what you all are doing, if you're doing 506 racer not, but we've switched doing 56 syndication from 5060-B, we kinda ripped the band-aid off, I got some advice from a couple of large indicators in Joe fearless was one, and a handful of others are bailout... Gotta do it. We were on that edge, we were scared 'cause we had a lot of sophisticated investors that we did not want to not include on our projects, and we're saying, Here's a million dollars here that we're not gonna be able to raise from known investors. We knew it was the feature of our business with what we wanted to do, 'cause I think one of the things our group and our team is good at is we're good at marketing, and we wanted to be able to market our projects, we wanna be able to talk about them. And it was one of the best decisions that we've made in the business is go down that 506 route, being able to publicly advertise your projects, now we're limit only accredited investors, but again, the credit investors tend to have more money to invest, and so the flip side is...

[0:14:06.3] SG: Our last project is a 5 million raise, we're closing on it today, we had 21 million in interest in 36 hours after launching, and this was for existing investors, I have a couple of LinkedIn posts that had multiple millions of dollars came in from unknown individuals within 12 hours or so, and so that ability to get the word out because there are so many individuals and institutions that are just hungry for these great opportunities, they're just looking for them, so if you're on the fence to do 50-60, 56, and again, this is not good for us, because it's more competition, but I don't really don't care that much, but 506-b is very powerful to be able to advertise. So that's one thing that we've done recently.

[0:14:49.0] WS: No, that's awesome, I appreciate you sharing that. What about some tips on how you personally take care of your investors, how do you shine your investor over other people that

are investing with?

[0:14:59.0] SG: part of that comes back to keeping them up-to-date with what's going on in the market and letting them know our thoughts on the market, you were very transparent to letting everyone know exactly what we think of the good, bad or the ugly, and then also coming back to that kind of that portfolio construction, it's something that I'm very interested in and passionate about it, like, Let's make a blueprint and we'll actually do portfolio blueprints to investors of laying out, Okay, over the next three years, you're looking all X amount of capital, what are your goals, what are your preferences in terms of cash flow, appreciation, risk profile, let's build out a single portfolio, let's see what it's gonna look like...

[0:15:36.9] SG: Let's proforma some of those returns, it's make some projections and is this looking like what you wanna see over the next couple of years, just 'cause everybody is different, everybody has slightly different goals, someone's a lot of overlap, but if we can take that extra meeting or two whether it's an extra hour here or there to just again, paint that more complete picture and take the focus away from just looking at one deal and one opportunity and look at what is the true goal here over time, and that taking a step back of saying to what is our why? Why are we doing this? We're not investing in real estate to invest in real estate, we're not trying to build wealth just to build wealth, what are we trying to do? Whether we're trying to retire soon, trying to build a new business, whether it's trying to get into real estate syndication, just like I was... And a lot of people are, I say, I wanna get into my first deal, I'm gonna do a couple of deals, and then I wanna start doing my own thing. I think that's great. It's a huge space. The more the merrier.

[0:16:34.0] WS: Spencer, what are some daily habits that you have that you're disciplined about that have helped you achieve success?

[0:15:49.0] SG: I've got a handful of daily habits, the most important is taking some time to meditate and having some very quiet time for just myself to really internalize what is going on in a given day. I typically do it in the morning, take about really 20 to 30 minutes in absolute silence and really just kind of break down what's going on, because in the middle of the day, everything's moving so fast-paced, you don't have the ability to get to the core of what you're trying to achieve and really to focus on your goals, and so taking that time to me is incredibly important, and then also writing down goals... To me, I've started doing that about three and half years ago, and if I had not started writing down my goals, I would have gone off on the wrong direction, I would not have achieved what I wanted to achieve because I was investing in real estate, but on the top of my shy

goals and see, I had to build a scalable business every single night was build a scalable business, and I had an opportunity in in the middle of getting Gray Capital started, I could have gone and worked for another real estate syndicate or another firm kind of inside of their organization, and it was a very appealing opportunity, but I went back to my goals and I said, How is doing that... I could have figure out a round-about way of justifying it, I'm not gonna achieve my goals by working for somebody else.

[0:17:57.0] WS: Awesome, I appreciate you elaborating on the example as well, 'cause that could have seemed like a very good opportunity, (It may have, but who knows? We're here where we are.) Yeah, if you had to pick one thing that's contributed to your success what would that be?

[0:18:10.0] SG: Having an open mind and specifically being open to partnerships, again, at first we were not as open to partnerships and expanding that openness allowed us to again to get started, to start doing deals because no one can do anything. Just on the run and sewing, working with people... Creative partnerships is the way to go.

[0:18:30.0] WS: How do you like to give back?

[0:18:32.0] SG: I like to give back a handful of ways, so my wife and I were very active, and a handful of charities here in Indianapolis and organizations, we feel strongly about a lot of it has to do with education. And then also financial education, really trying to help people learn about money because... And this is almost overstated in the fear that we're in this people are focused on financial education, but it still amazes me what is not taught in school about money, how it's created, how's destroyed...

[0:19:01.2] SG: How to balance a check book? Write a check. What is a mortgage? What is insurance? These are things that everyone in life is going to deal with, it's not taught in schools, and then when you're in high school, it's encouraged to take on tens of thousands, if not \$100000 in debt without understanding what that is. And so that's something that we're passionate about, and I think if more people understood, we'd live in a probably a letter society.

[0:19:23.0] WS: Well, thank you so much, Spencer, it's been a pleasure to get to know you bet or I've heard of you as well, just in the industry, I can't believe, we've not met before, but amazing business that you've built, and I know the listeners and myself have learned a lot from what you have shared and congratulations on the success and going from creating your investment club, I

think it's just an incredible thing that happens in people's minds to... And they can be part of a club. Some don't wanna be that oftentimes people do, but just creating the systems that you have, and even from Google Ads to just all the advertising you've created in the newsletter you talked about, but even working getting started with family offices, and that maybe it's not as intimidating as we often feel like when getting started there, but the tech that used to... that alone, you can save people so much time, like learning what somebody else to use is instead of having a tract so many different things or doing so much research, so thanks again for your time and willingness to be so transparent, tell the listeners again how they can get in touch with you and learn more about you.

[0:20:16.0] SG: First, I absolutely appreciate it, Whitney, this was a really great time, it's a pleasure meeting you and being on the show, best way to get in touch with me or you can email me Spencer at graycapitalLLC.com. Also, just by hopping on to grayreport.com, we've got a lot of resources there, and if anyone's interested, taking a look at this multi-family intelligence aggregator that we built, it's kind of bring in all this report, this grayreport.com in that's updated essentially every single day, but then also by signing up for our newsletter, you'll get kind of a summary of that every Thursday morning. So grayreport.com and graycapitalLLC.com.

[0:20:51.8] 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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