EPISODE 1112

[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.

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Whitney Sewell: This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell. You know, real estate investing could be both lucrative but also daunting. And thankfully, we've had guests on the show who have just been real and authentic and shared many tips and advice on just all aspects of real estate investing. Let’s give it a listen.

[INTERVIEW 1]

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Whitney Sewell: Our guess is Devin Elder. I'm so thankful you could be on the show, Devin.

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Devin Elder: Thanks for having me. I’m looking forward to chatting.

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WS: WHy syndication over some other type of real estate business like you've done.

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DE: Sure, great question. So there's, it's called four basic business models that I participate in. Three on the single-family side, you can wholesale a deal, and we still do that, we do a lot of that just 'because I have a great team. I built that up over years, and now I have a great team, and so we're still doing it. Wholesale, a deal where you can buy it and sell it immediately to another master. There's rental real estate, where you've got cash flow coming in. Flipping houses, I think, is the most risky. We still do them, but there's kind of a sweet spot we've identified or got good crews to go and do them. There's so many ways to go wrong, if somebody's listening to this and they wanna get into real estate, I personally think that they should not flip houses because they are more risky strategies.

I love rental real estate and wholesaling deals is absolutely a job, but I've got a great team that's executing on that. So, I'm not personally the one doing the door knocking in the cold calling stuff like that, but we're doing a lot of that.

Those are all kinds of jobs with the exception of rental real estate, which once you send it up, it can be more than a cash flow situation. But if you're looking at $300 a month cash flow after you can put some away for repair reserves and stuff, and you're trying to replace a six-figure income, you're going, well, it's gonna be a lot of houses. And I think inevitably people run into the ceiling on 10-20 rentals like I did. You go, “Geez, 20 rentals. Could you do 40?” I guess you could, if you start getting some fair point management in there, but you run into some limitations and then you've created another job for yourself.

So, why the syndication? Because it's so big to say, you're syndicating a 75-unit deal or a 100-unit deal or a 200-unit deal, it's so big that you can't possibly do it yourself, you've got to bring in team members. And so, you've got different team members, like a broker, you might have an analyst or somebody helping you with the analysis, you're likely gonna have, well, I do have a third party management company, which does a tremendous amount of work for 4% of revenue, I mean, to do HR accounting, marketing, recalling accounts and everything. It's a tremendous amount of work that goes into that for 4%, I think it's a great deal and a great thing.

For multifamilies, you can create that team, where somebody like myself is the sponsor and asset manager on the quarterback, I'm responsible for the deal and raising the money and dealing with the bank and asset management, but I've got a team, it's really executing a lot of the day-to-day stuff, which makes it a lot more scalable, it's just a built-in business that you can go buy into. And if you keep your occupancy up, you make it a nice asset where people wanna live, it's clean and safe, and you manipulate your Net Operating Income by raising income and borrowing expenses as much as possible, you can create a lot of value in a short period of time that it's just not possible in the single-family world.

So, maybe that's a more of an involved answer, but I like syndication as my favorite model of all the things that I have done and continue to do,.

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WS: And so, now let's go back to... I really like where you were taking the conversation a minute to go about getting started, and I really like the idea of first property being a 100 units or more, and the syndication model, 'cause you do have to have other partners. And I think while most people won't even consider a 100-unit deal because it seems so far-fetched, I could never do that. But I liked what you said about you're not gonna do it alone, you're gonna have other partners and other people who are experienced that are helping you in that deal.

And so could you elaborate on getting started in that business to pursue that 100-unit deal. I think most of the listeners aren't gonna have a successful real estate business of any kind like you did or do that scale, or you had that credibility probably going in to do the syndication model. But, let's just say I've just got a few single-family homes or I've been doing a few flips or whatever, what's some steps I need to take to finding that first hundred unit deal, syndicating that deal?

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DE: The base of the pyramid, I guess, is education for certain, there’s no way to waste it. Fortunately, there are so many great podcasts out there, people can listen to your podcast and learn a great deal. And the reason I think podcasts are such an effective medium is because you're taking other wise dead time. I've actually found myself reading a lot less, I've read my whole life, I've been a voracious reader, but I found myself the last year is reading a lot less because I'm busy, I'm working, or I'm doing family time or doing things I enjoy. But I do have some downtime in driving, or it's the end of the day, and I'm getting ready to go to sleep, but I can listen to a podcast for 30 minutes, everybody has pockets of time where they still have.

So, you still got 45 minutes a day of a multifamily investing knowledge via podcast and six months, if you're paying attention, that's gonna be a tremendous amount of education. So that's the first step, understanding the norms and culture, understanding how the process works. There's paid coaching that you can get paid for as a mentor, something like that, but definitely education is first.

And then beyond that, I always take it in terms of a three-step process, and I've just seen this work going over again, the first step of being involved in multi-fens, you can invest as a limited part, you can invest $50,000 and somebody else's deal, which will, depending on the deal, the returns would probably be pretty good. And you're gonna get some tax advantages, maybe some losses on your tax, paper loss on your taxes that first year. But you don't actually have to really do anything except for the deal and the sponsor.

So, step one could be passive investing in a deal, and if you're starting at zero, that's gonna open your eyes to a lot of how this works. Step two would be to try to partner with an existing sponsor on the general partnership side, where maybe you're raising capital or maybe you're providing some money for, earnest money, and things like that, where you can get... If you look at a multifamily structure and they're 30% for the general partners and 70% for a limited partner, you can carve up that 30%, some different ways depending on who's bringing what to the table. Maybe he's got a really strong balance sheet and you can be a guarantor on a non-recourse loan, which is a great way to participate. Maybe you've got a network where you think you could get educated and raise a quarter million dollars or half a million dollars for an experience sponsorship deal. That's a great way to participate.

But that's kind of the step two but step one is gonna be writing a check and then getting your quarterly returns and updates and learning that way. Two, would be to try to partner with an existing sponsor by providing some value. And then the third step, you can go and actually syndicate a deal.

So with all three of those steps, you can participate in a 100 plus unit deal and just start playing in that world. And it's just such a different world, it's all real estate, but talk about single-family versus multifamily. It's just different, the broker relationships are different, the language is different, the financing is different, and it's not radically different, but I think even though this is hypocritical, I don't necessarily think the single-family world prepares you for the multifamily world. If you're dealing with the end of the mind, if you wanna end up indicating large deals, you start there too, with your whole education, maybe some passive investing, partnering with a proven sponsor and so forth, because stuff like acronyms are different, DSCR, but nobody talks about VSCR and single-family, that service coverage ratio, and all those things.

So, I think if you wanna be a multifamily, focus on that, start building your network in that world, 'cause they really are two very different worlds.

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WS: Can you give us the one piece of advice that you give somebody just getting started, what's something just so important that you would tell somebody if you just had five minutes or in this case, maybe two minutes to talk to them and you're never gonna see them again, what are you gonna tell them? They're trying to get into this business.

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DE: It's shorter than two minutes, it is my ultimate success formula for anything in life, if I wanna put a marketing spend title on it. The ultimate success formula for anything in life is you find somebody who's achieved the result that you want -- fitness, relationships, business, whatever it is, anything in life, a defined outcome that you want, and you model them exactly. And modeling is a shortcut to anything because certainly nobody wants to regret the wheel, so you've got to model somebody. You've gotta have a mentor or something, especially in this business where we're talking about large amounts of money, you're not gonna go out and do this half-cocked or to stab at it. This is gonna be a serious commitment.

So, that's the short cut, is you model somebody that's already done it. And there's a voice to do that, and there's different mentors you could find you can pay to be a part of a mentorship group, you can find somebody in your local market that you can add value to, but please,

please do not try to figure this out on your own. You model somebody that's already successful.

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WS: Could you give us just a couple of tips on picking a good mentor?

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DE: Well, they'd have to have the result that you want. I think the key point in there is that they've actually done it because I ran into this guy once. He said, in an interesting way, as this older gentleman, I ran into his office because a friend of mine worked in his office and we started chitchatting, and I told him, “I just bought a 16-year apartment complex on the south side of town.” He said, “Really, what street?” And I said, “Kelsey,” he goes “2, 3, 5 Kelsey.” He goes, “Oh yeah, I used to own that.” And we started laughing, just the odds of this guy owning the property two owners ago that I just bought. I bought it for like three times for what he bought it for, right?

But he's an older guy, so I started picking his brain. And he said something that always took for me and I said, “Hey, I wanna get to more multifamily,” and I was coming at it from like, “I wanna be here, but I'm here,” and he said, “Hey man, you know, you're already in the store, you're walking around in the store, most people out there, they got their face pressed against the glass,” and I said, “Yeah, that's a good way to think about it.”

So a lot of people have their face pressed against the glass, they wanna get in the store, you gotta be with a mentor that's already in the store, already doing it and already successful with it. So that's number one. Number two is that they have to wanna be your mentor too. I'm not in a position in my kinda career, I think, to have a coaching program or anything, I don't know that I ever wanna do that, so I'm focused on finding deals and taking care of my current investors.

I don't necessarily have a bandwidth to have a bunch of students or whatever, but some people are, and they set it up to where they are open to having mentors or maybe you're raising capital for a sponsor that's valuable. If you're able to raise capital for a deal, their sponsors will want to partner with you and work with you and share what's going on for them. But the name of the game was just creating value for that mentor. So I think criteria for a mentor is they have to be doing it and be successful, and then they have to be willing to work with you in some capacity. I think those are my criteria

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WS: What's the top reason real estate syndicators fail?

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DE: I think it's the projection that you put in there 'cause anybody makes spreadsheets look good, right? I think if you project the right amount of vacancy, especially if after take over or on a rough property, you can have some vacancy, right? You're gonna project that in there. I think not predicting an exit cap rate that's higher than prevailing cap rate is currently on stabilizer ties. I think that's one of the things you wanna do on your conservative underwriting, and then you gotta have good partners in there, you're using third-party management, you gotta do that. Now, syndicators, failing, I don't think we see a lot of that right now because I think the market has made a lot of things right.

[INTERVIEW 2]

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WS: Lane, thanks so much for being on the show.

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Lane Kawaoka: Hey, thanks for having me, Whitney.

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WS: What is something I can do right now to improve my syndication business?

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LK: Realizing that you're gonna be in the game a long time, because in the syndication business, you're not really putting your egg in one basket, you're diversifying around. So it's just a matter of staying alive.

So I think you just have to build a relationship, it comes to relationship at the end of the day. So I think a lot of people get into this zone where they're just kinda selling deals, that's a great way to alienate people at the end of the day, I think if you put your investors first in your heart, the words will follow in, your actions will follow.

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WS: Can you give us some tips and putting our investors first and kind of modeling is what you just say?

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LK: It's not really a hack, it's more the top kind mindset. If you're gonna go into this deal with your own 50 grand, then you've already made up your mind for yourself, you just have to communicate the reasons why you're doing it. And what is the difference between you selling the deal and would you have bought it on your own? Maybe, maybe not, right, but if you believe in your heart that it's a good investment, that a cap rate to words that it's underrated

properly and it's using the right assumptions, not something crazy, 5% increase a year, but considerably at 1.5. And you know how to do that and you can communicate that over, then I think that's what's important. Not that you're trying to sell a deal, and that's the worst thing. And you gotta be a hunter, people like better hunters, they go out, they prey on the kill and they move on to the next one. That's like a used car salesman. Or encyclopedia salesman. Nobody likes those guys. You gotta be a farmer with your relationship, you tell people what you're doing, and if they wanna follow you and they trust you, they'll follow you.

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WS: Tell me, what's your focus right now? Are you in the syndication model right now, or if you are, just tell us what your focus is currently?

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LK: Yeah, so I kinda see myself as the deal hunter or hunter. Gone are the days where I kinda talk to brokers and I at least 20 or 30 deals in my inbox every single day, but there are a lot of 99.9% of the margin junk because they're kind of non-filtered. I kinda just focus on building relationships with operators and newer ones too, but I normally just follow them for their first couple of deals, and when somebody goes up a track record and I've been following them for over one time and I trust them, and build a relationship with them, then I'll look into investing with them.

At that point, I've run my background checks, I've asked my people who this guy is, and then I pull the PNL and recalls, and so basically I'm hunting the hunters out there, these days.

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WS: So you're on the capital raise side?

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LK: Yeah.

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WS: Great. Tell us, how do we know a good sponsor when we find one?

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LK: Well, I think at first you're gonna go around, but people always solicit first, which I think is the craziest thing in the world. Okay, you're basically telling me that you're super desperate for money, that in the first meeting you have to ask me for money. What's more desperate than that? So whatever you do, don't do that.

I think it's just a matter of having people in your network, and then just things will happen if you keep growing your business, opportunities will come your way as people hear about you.

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WS: So some sponsor that you've partnered with or co-sponsored with, what was it about them? I know you had the relationship, but was it a certain amount of deals that they have done, or a certain amount of return?

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LK: I'd say maybe about two or three is the minimum threshold I guess. In my head, returns, everybody's doing the same returns 80 to 100%, whatever the gold standard these days is. But it's all built into your assumptions, it can be 100% year in five years, but if it's not underwritten correctly, you can go right down to a 20% return in five years, which is a bad deal.

So, it's all built in on the back end, and if you know how to analyze deals, you can kinda stiff that out and see who the real people are from the fakers. But for the most part, if people are underwriting their properties correctly, and you're assuming that they're all the same, it's just a matter of building your own network of limited parts and using them to help you vet people, 'cause once you build your network to a critical mass size, now, you pretty much know what everybody.

And if you don't know if someone somebody you know has probably been in their previous deal or knows them. So, at that point, that's why I say some of them will bring me in downtime like, "I never heard of that guy." They might be great, but it's just not worth it. There's so many people doing good deals, it just doesn't make sense to go on a beaten path, really.

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WS: That makes sense. As far as underwriting the deal, how many deals would you say you have underwritten before you really felt confident that you knew exactly what you were looking at, when somebody presented you with the numbers?

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LK: In 2017, I think, is when I still had this pipe dream when I wanted to be an operator of a class B and C multifamily. So, I went on this crazy mission to just analyze every single thing that came across my inbox. So probably the first six months, they analyzed at least 60 to 80 properties and initiated it in the beginning. It takes you an hour to do it, putting in the spreadsheet, but all the rat rules are in there.

But then you start to figure out which ones are not even worth your time to put in a spreadsheet, and then you can fudge numbers and it's not perfect, but you know you've done it well enough to know you can do it in 10, 20 minutes, especially what all your windows are off. Doing that, I probably got another 100, almost 200 done in the next year, 18 months.

But I felt like I kinda got it pretty good at 50, but I got really good at about 150 properties. So let's just say you're doing 20 minutes per, that's a good 20-30 hours just doing the same thing. And you start to build the heuristics in your head, you start to see the matrix, you know what to look for at that point, that's kind of when you've got it. I mean, it's not rocket science, right? Income minus expenses.

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WS: What's the mistakes you see that are really common as far as underwriting?

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LK: I think the biggest one is the cap rate reversion thing, that's more of a call. So if you folks don't know what that is, and then you're supposed to take the prevailing cap rates, it's like 6%. And then because we're all guessing out here, we don't know what the common is gonna be, wanna be more conservative. You wanna show your reversion cap rate 1% higher than that, especially if it's like a five-year hold. So that basically says that you're gonna sell the property in a softer market, that's just the one cell in your spreadsheet that you change, but it just gotta be right. It certainly can't be confirmed. Six to five and a half.

That's just crazy, but you see that out there, people are doing half a percent increase, which is way too a little bit in my opinion. And one, I see something like that from a syndication perspective, I just chuck that thing around the trash can already.

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WS: Before we run out of time, tell us how you've recently improved your business?

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LK: Just small increments every day, you kind of lose track of it after a while. I'm pretty good at keeping notes these days, 'cause they kinda just got a lot of people, right, and it's just hard to keep track of people, but I think you gotta try to figure out who are the people you wanna keep in close contact with, the more people, the bigger chance you get to just filter where they all belong.

[END OF INTERVIEW]

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Whitney Sewell: We hope that you enjoyed the Highlights show today. You can always listen to the full episodes that were featured today by clicking the links in the show notes page. And in

the description box, let us know what you've thought of this episode or you can go to lifebreidgecapital.com/podcast and click the feedback button. Let us know how we can add more value to you. Thank you and talk to you tomorrow.

[OUTRO]

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