EPISODE 1113

[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. We are introducing a new segment called The Real Estate Syndication Show Highlights, where we're bringing you a look back at episodes focused on a specific topic that we believe added a lot of value to you in your syndication journey.

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[INTERVIEW 1]

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Whitney Sewell: Today our guest is Amy Wan. Thanks for being on the show, Amy.

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Amy Wan: Thanks for having me.

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WS: Everybody wonders how I should structure this complicated thing that we're trying to put together. I appreciate you explaining this, so get us started.

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AW: Alright, so maybe the first thing to do is we wanna define a few terms and spell a few myths. So, I think there is a lot of talk around GP-LPs versus LLCs, and they're very similar, but they're slightly different. Everyone thinks that when they're going and doing your real estate syndication that is automatically gonna be a GP-LP structure. But that's not always the case.

Here's the difference, I think that when it comes to folks who are better off or the GP-LP, they tend to be people who they're not beginning real estate sectors, they are experienced indicators or doing this full-time and have a full-time team. So, you have a team of maybe five, 10, 15 people. Maybe you've got a handful of principals versus folks who are using more of an LLC structure, even if they are doing this full-time, they don't have a full-on team, and they tend to be not nearly as many principals, why? Because this all goes back to succession. The question now is, what happens when you're a real estate syndicator, you get on the plane to go see your next project and the plane goes down, what happens with all your other projects? Your investors are going to be in a state of panic.

If you are using an LLC structure, that structure tends to be a lot more flexible. So, if you look at the standard voting guidelines and the way the operating agreement is set up and everything like that, basically it allows a lot more flexibility for someone else to come in and run the project, if something ever happens to the syndicator. Now, there is a chance that the reverse could happen that syndicates still around, and then investors are all just super unhappy, and so the investors basically vote the sponsor out and try to take the project over themselves or they try to find someone else to manage it or something like that, in case the thing is going sideways.

But so long as you're keeping your investors happy and you're communicating with them and keeping them well-informed, that's a pretty rare occurrence. Now, for the GP-LP structure, it is not nearly as flexible... Right. So much more rigid. So, the reason why you want a full-time staff and many more principals, is that there's only a set number of people who can take over in case something happens to one of the principals, right? The other principles are gonna step in or something like that. Maybe focus on the staff will step up or something like that, but it's not going to be a situation where you're going to have a whole lot of options, and so you really want a much more professional, robust succession plan in place to the extent you're using the GP-LP structure.

The next thing I wanna cover is, one question I know, is how many entities do I need? And it really depends on what you are doing, right? Every project is different.

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WS: Can I go back to the first thing? Just for a minute. Yeah, the GP-LP structure versus LLCs , I hear it in every conference, especially people trying to get into the business. I don't wanna have to do the syndication thing, I don't wanna have to pay all the attorney fees, and I try to ask, “Well, what role do all the other people play, are they just giving you money?”

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AW: In the two, it's almost practically the same thing, just because you're doing a GP-LP structure does not mean you're not syndicating and you don't need legal documents. Ao long as you take one non-a credit investor, you are required to have documents, the rest of the time, it is highly recommended you have the documents. In terms of when you are selling a security.

So, I'm gonna tell you a quick story. Right. Once upon a time, a couple of decades ago, there was this orange farmer in Florida, right. And he thought he was gonna be really clever and basically pick on tourists that were coming through that part of Florida and sell them the land that all the orange trees were on, and then he was gonna lease it back so that he could actually farm on the land, as he gets away with this, they were not incredibly happy. And so this is all a real story, by the way, that is how the Holley test came about. The guy who actually did this, his name was Holley. And so it is a very basic test that tells you whether or not something is actually a security. The Holley test is a test and basically, it defines whether or not something is a security. Anytime you're selling a security, all the securities laws apply. It doesn't matter if you're doing a GP-LP structure, it doesn't matter if you're doing an LLC structure.

This does matter in terms of classifying whether or not it's a JV or not a JV, which people also get confused about. And I think we talked about this on the first show, but I'll come back to that in a second. So the Holley test is basically this: it's one, an investment of money; two there's an expectation of profits; three , there's a common enterprise; and four it depends solely on the efforts of a promoter or third party. So, in your average real estate syndication or GP-LP thing, investors are investing money, they're expecting to get a profit, the common enterprise, there's different ways that is interpreted, but basically this is all a common thing, it's not like, “Oh, this person's doing this, this person's doing that,” right? It's all a common project, and then for which the most important part is: It depends solely on the efforts of third parties. In a GP-LP structure, you have some silent investors and then you have the actual investors,the GPs. So long as you have passive silent investors, that's still gonna count as a security.

[INTERVIEW 2]

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WS: We have Scott Smith, he's a real estate investor and asset protection attorney in Austin, Texas. Thanks for being on the show, Scott.

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Scott Smith: Hey, thanks for being here. I mean, it's really exciting for me to be able to even have an opportunity to share about these really powerful structures of how we can just do business better is always super fun for me. I love real estate, I've been investing for over eight

years myself, and now I'm currently in 10 different states in all different asset classes, so I'm an open book here today to share with you whatever we can.

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WS: Something I really liked about Scott is not just an attorney, but he's also a real estate investor, so he's gonna understand things about the business that a lot of attorneys don't. And I'm really looking forward to the shows.

Tell us how your company is going to benefit a syndicator specifically.

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SS: Yeah, so there's a couple of things. When you're looking at the syndication realm that you need, you're gonna need a CPA, you need the deal maker who's gonna be this typically, syndicator. And then you need the attorney that's gonna help you put together the deal, and maybe even a couple of attorneys depending upon how you're doing the financing piece of it. The CPA piece, if you don't have one, we can help you find a great one. The deal find or piece of it, we have people that have deals, if you're great at raising money or vice versa. And then what we specialize in helping people on is how to use the right company structure for that, typically, you know, there's two ways to do that.

You can do that either through an LLC, that's just gonna be like a plain, normal LLC that you would close on it. Or a more advanced structure is gonna be something like a series LLC. With a series, you would continue to close on the name of an individual, LLC for financing purposes. But then you have this completely separate asset holding company that you can park all of your assets in.

If you're ever sued, people can't get to the assets themselves 'because they're isolated from the transaction. And a series of LLC is neat, 'cause you can scale for free, you get to create LLCs for free on your desktop.

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WS: Tell me when I would need a series. Also break that down a little bit. What that is maybe if I've never heard of a serious LLC before.

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SS: Yeah, so a series of LLCs, essentially, it gives you the ability you can create in over 12 different states right now, but you can create it in one state and use them everywhere, just like people have used Delaware LLCs to form Delaware. We're doing the same thing, typically,

we're using a Texas series only because I love Texas, even though Texas is great, it's because Texas is cheap and strong when it comes to what the costs are associated with them.

But series LLCs, they essentially allow you to create unlimited LLCs for free. And the advantage to that is whenever you would need multiple LLCs, right. So, typically what we're talking about for real estate is we want one LLC per asset. So, if there's ever a lawsuit bombing that one asset, they can't go after any of the other assets. And a series also allows you to do that without having to create a new LLC and a new bank account, a new set of books, and a new reporting for each individual LLC would do.

Series LLCs is one company with one EIN number, one set of books, etcetera. I guess all of your life stays super simple and streamlined while you're scaling up.

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WS: That's interesting. So does that gonna work the same if I'm in a single-family home? Iif I have a 100 single-family home, I'm just gonna have a series LLC, or if I'm a syndicator and I have numerous deals, what does that look like and who does it benefit the most?

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SS: Yeah, so it works exactly the same. No matter what assets you're using, whether it's apartment complexes to notes to single-family homes, this is the one way that you can really get top level protections for relatively cheap as compared to the old model, which was individual LLCs.

So we find that people that have single-family homes usually have somewhere between 2 to 10. I have a few clients that have 50 to 100 plus single-family homes that we look at with what we do for them. But the syndicators that we work with really like it, because let's say you're syndicating a deal that you're gonna close in Tennessee, right? So what you could do is you close on the deal that's there in Tennessee and you close on the name of a Tennessee LLC that you started, because that's what the financing company is gonna want you to do.

And then after the time of closing, you'll transfer it over into a Series LLC to be your asset holding company, while your Tennessee LLC remains as your operating company. So Tennessee LLC is gonna be the landlords for a property, it's gonna hire a contractor, is just gonna manage all the business to take on all the liability. But the actual ownership of the property is gonna be held inside of a series of LLC structures.

And we have some cool things that we incorporate with that, like using Land Trust that help you the asset anonymously and help you avoid, and you do want sales problems that come up with that. So it's really a way that you can scale and have one safe entity that's super safe for everything that you do. And it compartmentalizes all the liability or things that would trigger lawsuits in your life into a separate shell company, which would be that Tennessee LLC.

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WS: Nice. What's big mistakes or even one or two specific things that you see commonly done incorrectly by syndicators as far as the deal structure?

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SS: Yeah, well, they'll start running all of their business out of the same LLC that actually owns the asset. The number one thing for asset protection is always separating the assets from the operations of a company. So all the assets need to be held in one company, even if you don't use a series LLC, even if it's a traditional LLC. Great, fine, but you need a completely separate company that doesn't own anything, but it does everything for you, essentially is your face to the world.

So, that way when there's a lawsuit, what they end up doing is suing that shell company and because that's the one that signed a lease or hired them on the contract or whatever... Right? So now your shell company types on a law soon, but do you really even care because all of their worst case scenarios are that they get a judgement against a company that doesn't own anything and you just start up a new company. So, it limits your downside risk for anybody that tries to see you to be like a “Meh, really not that big a deal. All I have to do is to start up a new LLC.”

You don't even have to worry about that lawsuit coming after me. And the whole time all of your assets are all protected in this castle that we built for you, which is completely anonymous, everything compartmentalize, people can't even find out that you even own anything by the time that we're done

[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]

0:14:05.0 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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