EPISODE 1152

[INTRODUCTION]

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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 (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell.

Today our guest is Peter Halm. Peter, also known as the Deal Hunta, Halm is president of Vineyard Investment Partners, where he is responsible for finding investment opportunities and forging strategic partnerships. Together with his wife and partner Monick, they bring groups of investors together to purchase commercial property. Their specialty is working with investors and raising capital. But something happened recently in their businesses - switching asset classes. The pandemic changed the way they looked at some specific asset classes that they were in. Peter goes into that in some detail today. I know that's going to be useful to you. Or maybe to think about what asset classes you have in your portfolio as an operator or an investor. Also, we go into some capital raising techniques, tools, things you might want to think about, or best practices, even some mistakes. There’s specifically one mistake he brought out that I feel was just crucial to anyone or anybody in this business that's working with investors. Anyway, I know you are going to learn a lot today. Enjoy the show.

Peter, welcome to the show. Get us started with a little of your background, maybe a little bit about what you are focused on right now, and your specialty.

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Peter Halm (PH): Thank you so much, Whitney. I'm here to basically let you know what's going on in my world. I'm a partner with my wife, Monick. We are real estate investors based in California. I'm originally from Australia. I came here about sometime in the last century. So, we are basically capital raisers. We invest mainly in multifamily and industrial, and it's been chugging along pretty well during the whole pandemic thing that we've had. We've pivoted more towards industrial then, because when we got the feeling that essential industries were what's going to keep on going. Prior to that, we were doing a lot more C class multifamily, and we saw there are issues with the whole “not being able to evict people and delinquencies”. So we kind of moved more towards BB+ class, and as I said, industrial.

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WS: Okay, now, that's awesome. Maybe you can elaborate a little bit on just the ways the real estate industry has pivoted during Covid and what you have done. I know you talked about multifamily to industrial, I remember Monick and I talked about that as well, but I'd love to hear your take on that. And maybe what happened during Covid and why you all made that shift.

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PH: Going back to early 2020, we were in Australia and we said, we probably better get back to the States because we may not be able to get back here. So, we quickly flew back and we took stock of our current assets and we saw that we're having issues with our C class. We saw people who we knew were able to pay rent, stop paying rent because they didn't have to. So, that was an issue, and we thought, okay, we’ve got to start thinking a little bit creatively here. We want to keep getting deals, we want to keep raising money. And it's not that we're going out into the market looking for deals ourselves. We have partners that we've been working with for quite a while, and we know I can trust them and they bring deals to us. We get into partnerships and we vet the deals and we like doing stuff with other people. As everyone says, real estate investing is a team sport. We love working with great people and we love win-win situations for everyone. So, here we were at that point, and lending kind of stopped. We spoke to a lot of people, and they said, right now, we're under contract for certain multifamily properties and nothing seems to be moving.

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PH: This is very early in 2020. I'd been in touch with someone who was doing industrial work and we've been talking for a while. For me, it was something out of my wheelhouse, I didn't quite understand it. Then I was learning little by little and then I realized that there are certain industries, certain tenants, and properties that were actually going crazy. Business is crazy. These were essential industry people who were, for instance, supplying food to supermarkets. And the whole Amazon thing was crazy, distribution centers, warehouses and we thought, okay, we've got to start looking there. Our partners were looking as well. The first one we got into was a cold storage facility that had frozen products selling to Target, Walmart, Whole Foods, and their business was just going through the roof. And we figured, well, that's a good tenant to have. So, we started looking for this kind of tenant where their business was booming. Then, there was a property for sale. We were basically purchasing property. And, for as long as we keep track of the tenant that their business is booming, we knew that we had some, I guess, longevity there.

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PH: We did have a couple of industrial properties previously, more like industrial parks that had mom-and-pop people. And some of those were suffering a bit, their businesses have shut down. With those, we were like, we're writing those out.

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WS: Nice. I appreciate you elaborating on that, just how you pivoted. Since capital raising is your specialty, I want to lean on that some more. What you just said around making that shift in asset classes like that, how was that presented to investors? What was their take? Was there a big pushback? How did you all warm them up to that idea?

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PH: Yeah, that's a great question. It was a tough one. A lot of people, we send out a little first look at a potential deal. And we got responses like: “Yeah, I'm not comfortable”, “I like multifamily”, “I’m not really comfortable in doing something like that”. And then we had other people who were like: “Okay, well, tell us more”, “Can you explain?”. So once people heard what triple net was, they loved it! So, triple net. “Okay, you mean that the owner of the property is not responsible for property taxes, insurance, maintenance, repairs, anything like that? So, it's like, “Okay, so what then does the owner have to look after?”

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PH: Well, that's service. Once people hear that, they realize that, right, there are all these safeguards in there. And they were seeing what was happening with multifamily at the time, and they said, “Okay, well, this sounds really interesting. Tell us more.”

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WS: Do you find that they want to get in, say, just a little bit and then grow over time? Did they test the waters? Was it like, “No”? Or maybe, “You have educated me and I'm just willing to jump right in”.

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PH: Yeah. I think most people wanted to jump in at the minimum. And there were some people who are like, “Hey, whatever, you've been good with us so far, we'll just throw it in”. But I think more people were cautious. They wanted to test the waters first. But I think that's the same with any capital-raiser, syndicator, or sponsor. It's like a whole learning period. Then a lot of people will tell you, “Oh, I've only got this much”, but somewhere along the line, someone will let out, they're probably sitting on millions of millions, but they're just testing you.

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WS: Yeah, no doubt about it. I've seen that happen personally many times with many other people. So, you're capital raising. I want to dive into that a little bit. I mean, this is your specialty. Maybe we can start with some tools, things that you have learned that work best for you all. Then maybe we can jump into some best practices as well.

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PH: We make sure that we have a personal relationship with investors. Well, some of our raises are for accredited only, 506(c), and some of them are for everyone. We make sure we have some kind of relationship. And for us, it's like, you know, we don't really care if you get into this one relationship, we'll always find another investor. But we want you to feel comfortable, and we want you to feel comfortable so you can be a repeat investor. So for us, it's all about making the investor feel really comfortable. And this is a really interesting thing. We like to do this with investors, we like to understand their personalities, so we can speak to them. We use a system called *bank code, B-A-N-K*. You go to the website, *bankcode.com*.

What happens is someone does a really quick personality test, and we can then tell whether they are a B for Blueprint. Kind of like the accountant numbers type. They just want to crunch numbers. Then, A for Action, whether the action person is someone who's like - we don't care about the details, just get to the point, just give us the bottom line. Then, there's N for Nurture. A nurture (personality) is somebody who loves doing stuff in the community with people where everyone wins. So, they're more about having a relationship with you and they want to see that the property is doing things for its tenants in the community. And then, there is K, the last letter, which is Knowledge. They are the people who want to deep dive into research. So, when someone tells us the first letter that comes up is Knowledge, it's like, okay, so here's the offering memorandum. And here's all the information on the market. Here are the rent rolls, you can go through everything. You can spend your time, and they're very happy to go away and spend hours and hours and hours just getting that knowledge. Then, when they feel comfortable, if they do, they come back to you and say, "We want to invest." The action people are like, we know that if we send all that stuff over, they'd be like, "Okay, this is just too confusing to me. I'm moving on to something else." So we kind of get an understanding of the investor's personality code when it comes to how they operate and money and all that. And then we act accordingly.

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WS: I think it's so interesting, I don't think I've ever heard anyone talk about having investors complete a personality test. I think that's so neat that you can understand a little more about how they think and you can adjust accordingly. Because exactly what you just said, say you're talking to an engineer. Right away, they want to see the numbers. They want to see the details. I've got somebody else to help in the morning, like analyzing every number. And then there's some, if you send that to them, as you said, it will just scare them to death. They'll be just like, “No, I trust you all”. I want them to see it, but some of them are just like, “that's just too much information. This is all I want.” Right?

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PH: Yeah, I've lost investors on calls where I just went into details. And they're like, you can probably see them looking at their watch going, “This isn't for me. I'm not feeling this.” And they just want to get off the call and go.

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WS: Tell me a little bit about administering that personality test. How does that come into the workflow? How do you get investors to complete something like that? What's the time commitment for them?

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PH: It’s really quick. Two things, number one, I can usually pick in the first couple of minutes what someone is. Like, I'll know what their number one code is. For instance, they tell me, “I'm an accountant and I got a degree in statistics and I love my work.” So, it's kind of like they're telling you what they love, what they want. Then the second thing might be like, “I invest with my wife and my wife kinda likes this and that.” And so, I kind of get a feel. But, what we have been doing, I haven't done lately. But, I want to do it more. Send them the link to go and get their bank code, and you get it in 90 seconds. We have a little account there so we get the results. And I'll get the results before I get on the phone with them.

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WS: That’s neat. What other tools do you find useful? Whether it's something like that or something administratively in-house or anything that would be helpful for somebody that's trying to do the same thing.

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PH: I just like you to know that Monick and I, we have been approached by a lot of couples who said, “You guys work together in real estate investing, how do you do it? We just get together, we tear our hair apart, and stop”. We've got to figure out ways to help couples. Because when anyone's ever making a financial decision to invest with you and they're with someone, usually they have to get the approval of the partner otherwise, they're (unintelligible).

So we also have other techniques. There is a couple, Taylor and Megan Kovar, they’re called The Money Couple. They have this thing called Five Money Personalities, and we've started implementing that as well. So, we like to see how people operate in terms of their personalities interacting with other people. This is specifically on money. The first one is someone who loves to spend, then someone who loves to save, and then someone who's into risk just for risk, and there's someone who wants security, and then there's a person who basically doesn’t care about money, it just doesn't even come into their thoughts. So, we're using that as well, more and more.

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WS: That would be great to know about your spouse. Those things right there.

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PH: Oh, absolutely! It's kind of mind-opening when you find out like, “oh, I thought, hmm, huh…”. So, it helps you to be able to talk not only to your spouse or your partner, and that could be a business partner too. It also helps you when you're talking to investors to find out where they're coming from, what their needs are, and the way they operate because ultimately, as a capital-raiser sponsor, we are here to meet the needs of our investors.

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WS: No doubt about it. Yeah, as you said, that'd be great to know about investors as well. Any other best practices that you would share with somebody that's getting charted into this industry? Maybe even those that have been doing it for a while. Like, “you know what, we do this every month for our investors or every quarter or whatever", that they've just loved and wanted to come back to invest more because of this thing?

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PH: For us, the number one thing has always been communication. We try to send out newsletters for every investment every month. And most of our investments actually were given distributions monthly, so it kind of comes out together. The issue has been where we're working with partners and the partners on the same level of communication with us. So, we're having to say, "We need the numbers, what's going on? You're on the ground, you're dealing with property managers or tenants or whatever, we need this information to give our investors." Sometimes, we find that we are on the same page and we're just trying to get information to pass it on and we're just not getting it. But, yeah, communication for us is key, it is number one.

Giving the good, the bad, and the ugly. It's tough when you have to say that this investment right now is not going well. It's really, really tough. But you kind of swallow and go like, "Okay, this didn't go well. This quarter or this month, we're working on this, this and this. But right now, this isn't going well", and investors appreciate it.

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PH: Some are kind of like they may start freaking out, and that's the way they deal with things. And others are like, in fact, the majority are like, "We appreciate your honesty, your communication, and that's fine". I think that all boils down to when you first vet an investor. If you do it correctly, you will not have those issues moving forward. Sometimes, especially for a beginning syndicator, they need to get investors, they need people in the deal, so they'll take anyone's money. And sometimes money is very costly, having to deal with certain investors. There are some who's just the squeaky wheel and they're going to be on your case all the time, send you emails day and night - "I need more information. What's going on there? I didn't hear from you yesterday. You're a day late." And you hear that. I can go back to investors who've been with us for quite a while, and I remember the first time I met them. I talked to them, and I recognize now that maybe at that time, that investor may have put all of their money in your investment and they're scared. They're nervous. Totally understand it. What I would do in the future is, as well as telling people investors about the potential risk, I'll also ask them, "Would you be comfortable if you didn't get your money back?"

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PH:: Now most people would say, "Well, no, 'cause I'm in this to get returns and everything." But you kind of get an understanding if you can find that someone who's putting in less than 10% of their net worth. And if someone is putting in everything, it's probably better just to say no.

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WS: Yeah. That's probably hard for some to hear, especially when you're getting started. You said it in the very beginning, you're wanting to accept every investor you could possibly find. But it is a mistake, I agree completely, to take just anyone. And you want to help those people but you do not want to take their last dollars that they have in your investment or all their investing dollars. No doubt about it.

While we have just another minute or two, any other mistakes that you see other people make or you all make that you could say, "Hey, don't do this"?

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PH: Something that was drummed into me very early on, we started going to the Real Estate Guys events back in 2016 - Robert Helms, Russel Gray. And one of the things we learned was when you are talking about a deal, talking about numbers, their projections, anyone can write anything on a piece of paper and make something look good. So, it's really important to let investors know that these are projections, it's a proforma.

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PH: But I get a lot of investment opportunities in my inbox and I see so many people talking about their deals. They're saying, "This is the return you're going to get. And this is what the deal is going to do." And, they don't use the words "projections", "our best estimates", "we expect", "we're conservatively projecting this". So, they leave off those keywords. I was told by an attorney that you can't do that. You have to cover yourself there because any numbers you put are projections for the future. So, I see people basically put in stone what they're going to give investors and shouldn't be doing that.

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WS: I think those are very wise words. I also hear that all the time, "You said, this is what you're going to get. You said that." And it is projections. I just think it's good to remember the expectation you're setting for your investors. You have every intention of paying those projections. However, they still are projections, right? You hope you can pay more than that, but they are projections, things happen, these are massive deals, and there are a lot of interworking pieces, things that you just cannot project. That that is your goal and you've taken all those precautions. But on that same note, when you're looking at these projects, Peter, how do you prepare for a downturn? How do you know that you're prepared for a downturn when you're working on these projects?

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PH: Good question. Well, it's all about underwriting conservatively. We make sure that there are a lot of safeguards in place. With the industrial, I think the number one thing is making sure that you're purchasing the property at a good price. You're hoping there is appreciation because cap rates are compressing and vacancies in that particular market shrinking. But you want to buy at the right price. You want the tenant to be really, really strong. With industrial, you are signing typically a 20-year lease and you're putting some options on that. Maybe another couple of 10-year options although you're only most likely going to be keeping it for five years or so. So you figure out your extra points. Very conservative on everything.

The other thing is, if something happens that way - that you do lose a tenant - you want to make sure that you can rent it out and make sure that any downtime is covered. So typically, we like to make sure that the deal works by giving the tenant lower than market rent. So if the deal works with the rent being lower than the market, and we know that we've got some kind of buffer if we have to ever get another 10 and in.

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PH: And that's never ever happened. And with our partners too, it's never happened in 10-15 years. So if whatever happens, then we know we can get market rent. It's entering a deal the right away. You can't always force value. But what you do upfront is probably more important than what you're doing along the way.

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WS: No doubt about it. You're making sure you can lower those rents if something happens. We want to make sure that we can still be competitive if we have to come down in a big way. So, on the capital raising front, what's been your best source for meeting new investors?

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PH: Events. Monick, my wife, has her network, which is the Real Estate Investor Goddesses. She's focusing on women. I'm actually the Chief Operating Officer of that business. I'm the guy behind the scenes. We have a lot of women who are interested in becoming real estate investors and learning. So, we have educational programs to teach women about different asset classes, how to syndicate, all that kind of stuff. And then, once they get educated, they want to invest. So, we have our investment vehicles. We have a flow of potential investors coming in. So there's that. Just events on different dates. And these days, Zoom events, webinars.

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WS: Yeah, so you would say the thought leadership platform that Monick has. Then that community that you all built through education. Educating them is how you're gaining many investors. I think it's great for the listener to think about that. How you are putting yourself out there. How you are being uncomfortable putting yourself out there in some kind of thought leadership platform. You can be educating people, 'cause often we can't put deals out, but you can put educational content out and add value to people at the same time. Peter, what would be the number one thing that's contributed to your success?

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PH: I have to say, my wife, being in partnership with her. We have an incredible relationship. We've been investing in real estate for 15 years or more. We started syndication five years ago, six years ago. But I think it's her. We've learned to become each other's cheerleaders. And we've learned that we can't do everything. I can't do everything. She can't do everything. And we built our teams to do things, but initially, it was just the two of us. So, I let her run with what she's excellent at, and then she lets me run with what I'm excellent at. We just have this synergy where one plus one equals 11.

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WS: Love that. If that's me and my wife and it's 11, she's like 10 of those 11, you know? Completely understand them. How do you like to give back?

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PH: Education. We love to give back. We actually have set up a foundation. We're kind of in the early stages of that. It's through the women's thing called the Real Estate Investor Goddesses Foundation. So we have tagged a number of causes that we're going to be giving to. I've actually started there. But pretty much, it's education, helping out anyone who is looking to get some kind of financial freedom. Anyone who is trying to figure out how to get out of a place they're in that they're not happy with. And we're happy. We're doing it with couples now. We have an organization now called Real Estate Investors Soulmates. We actually just had a retreat last week, and we had a whole lot of couples. But just helping them figure out where they were.

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WS: Awesome. I appreciate you sharing that. You are just being focused on giving back and getting your foundation going.

Peter, appreciate you just talking about the Covid and how it made you all pivot and think about pivoting, going from multifamily to industrial C-class. Due to what was happening, tenants stopped paying rent, and pushed you into the industrial. Then, how you present that to investors, the capital raising, especially some tools you have implemented and best practices and even some mistakes that were, I think, very crucial. I love the advice around how you say what you're going to do as far as projections versus not saying, 'Hey, we're going to pay this.' I think those are very good words of wisdom there.

Tell our listeners how they can get in touch with you and learn more about you.

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PH: Yeah, you can jump to our website, www.vip-assets.com, or you can jump on to Facebook. There's a Facebook Page for Real Estate Investors Soulmates.

[END OF INTERVIEW]

[OUTRO]

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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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