EPISODE 1153

[INTRODUCTION]

0:00:00.0 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]

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Whitney Sewell (WS): This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today your co-host is David Robinson. David is a client of mine and he is doing big things in the real estate syndication industry. I know you are going to enjoy today's show.

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David Robinson (DR): This is your daily real estate syndication show. I'm your host, David Robinson. Really excited about our episode today. Today we have Shane Brooks with a... Shane, welcome to the show. I appreciate you coming on.

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Shane Brooks (SB): Yeah, thank you for having me David, great to be on the show.

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DR: Shane is a long-time real estate investor and syndicator who has maintained his W2 job as a project engineer for a successful midstream company in Houston, Texas. He started house hacking in college but had to mindset shift at the start of the pandemic that sparked a much quicker growth trajectory and opportunities. And Shane has now become a general partner on two syndications in the first five months in the multi-family space, so congratulations on that, Shane. I'd like to dive into that today and talk about that process for you.

But before we sort of dive into that aspect of your journey, if you don't mind, maybe just back up and tell us a little bit more about yourself and your background.

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SB: Yeah, of course. No, thanks for that, David. So yeah, I'm from a small town in Southwest Colorado. Always kind of knew that I had the entrepreneurial-type field, and it was actually really good in math and science. So I knew that I wanted to pursue engineering at an early age, so that's really what I did. I didn't move too far from my area. I actually went and got my engineering degree from Fort Lewis College in Durango, Colorado, which is also where I started my investment journey itself.

So I now live in Houston, Texas. I'm working for the same company that I started with outside of college, but on the real estate investing side, I've always been kind of enamored with how money operates and going through college I hated seeing how much I was paying for campus housing, so that's kind of the spark that really got me to say, "let me put this money elsewhere," 'cause my whole goal through college was to put myself through college and come out on the other side with zero debt. And so doing everything possible that I could to get to that spot was really my focus and so I knew the biggest thing that I had was housing, and if I could find a way to minimize that, that'd be helpful, kinda translate down the road.

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DR: Yeah, I love that. And so many of us get through school and end up with a tremendous amount of debt. I have a few brothers in the medical field, and it's amazing to me the amount of debt and schooling that they have to get through just to start earning a reasonable... and a good income, but still having that heavy way to the dead on your shoulder, so congratulations on, you know, having that mindset early on. So what were some of the steps that you took? Obviously, in the bio, we mentioned that you started out house hacking. Talk to us a little bit about that.

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SB: Yeah. In Colorado, it's a kind of touristy mountain town. So it's a fairly expensive market. So, I still wanted to get into that market and kinda reduce my expenses. So, really before knowing what house hacking was or educating myself like I have done a lot recently, I kinda got with my brother, younger brother, "let's go in, let's buy a townhouse in the most affordable type of complex that you can get into in Durango, and let's rent out one of the other rooms and kind of reduce our expenses." So we did exactly that, we kind of pulled all of our savings we had together, and grant scholarships that we kinda, It actually took down our first townhouse, which was a three-bed, two-bed townhouse right behind the college. So, worked out perfectly for us. Rented out one of the rooms to our friend, and we thought we were kinda living the dream, reduced mortgage, and everything was kosher from there, so obviously you've learned quite a bit from that point, but that's really how we got started, was just wanting to be one close to school, but then also not having to pay on school campus housing work.

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DR: And was there anybody that, in your life, that had given you some guidance in that path that had said, "Hey, this might be a good idea"? Was it educating yourself about real estate investing? I mean, 'cause there's plenty of people that would love to go through college and have ideas about how to get on the other side of graduation without any debt but they don't necessarily go the route of house hacking or investing in real estate to achieve that. Was there anything going on in your world that caused you to think that that was the right path to go for you?

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SB: A lot of it was self-education and not knowing exactly what was gonna happen, but just kind of being accepting of it and going forward. So, my parents had had some rental properties in their past but it was never really translated to us. We kind of knew of them, but anything in the business structure or how they operated or even found and occupied these places, I was never really related to us, so just something they kinda had. And so, I think there was a little bit of bug there that they were doing this, but the way that we could make it better, or I thought we can make it better and actually create a business out of it rather than what they had and kind of a shorter-term mindset. So, that's really where I think it started, but for me, it was mostly a kind of self-motivation and drive to get to that point where I can reduce it.

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DR: Yeah, and do you still own the townhome today?

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SB: I do. I've actually never sold a property.

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DR: All right.

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SB: I've done a couple of re-finances to kind of go full cycle, but yeah, I bought that property in September of 2012.

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DR: All right

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SB: And that was kind of the start of my overall portfolio that I have up there that I have amassed, but yeah, that was the first one, still own it today.

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DR: Oh, that's great. So take us forward from there, how did things progress? Obviously, you ended up getting a job and started working on a career and you were investing all along the way. What did that look like for you from 2012 roughly to today?

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SB: Yeah. And so, it was really a slow start and kind of go into the storyline, but most of the growth has happened in the last year. So it's kind of your standard curve where you're very slow to start and then it goes exponential growth from there. So that first townhouse, we actually stayed there for about two years and saw another townhouse, literally a couple of houses down the street come up on the market, and so we had a great idea is like, "Let's do the exact same thing that we did here and, rent that or move to that place and then just rent out this entire townhouse and kinda the process." So that's what we did. I graduated and got my first kind of, first W2 job and then bought that house in August of 2014. And so two years later, our company closed our office in Durango and we moved to Houston to keep everyone under one roof. And at that time, was focused on finding personal residents, so I did that in 2016, and really just at that point, my mindset was pay off your principal 'cause I was in the mindset of why am I paying the bank so much money and interest if I can just save that? And it took me a few years to realize that the thing's gonna make their money regardless, so use that leverage better to increase what you can do with it.

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DR: And so, what do you do when you realize that? What changed about your tactics and your actions when you started to think about debt as a positive thing versus a negative thing?

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SB: Yeah, so it actually took me a while. The turning point that I back everything to was February of 2020, we bought our third rental property back in Durango, and it was also a townhouse. So kind of the same structure, but that was before I really did all my self-education where I didn't know what I didn't know, and if I look back at it now, I would have not bought that deal. But I think it kick-started me to really self-educated, I found bigger pockets, started reading every book blog that I could find, podcasts. And so that's really the turn that I saw, especially in Robert Kiyosaki's Rich Dad, Poor Dad book, was kind of the catalyst on my end is that utilize this leverage to grow at a better scale and not worry about who is making money, everyone's gonna make money, you can just focus on yourself.

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DR: Got it. So, you have recently since the pandemic turned your attention to getting into multi-family, and what was it about that pandemic that sort of sparked this desire to get into commercial multi-family for that matter?

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SB: Yeah, it's really to the self-education process is when I saw really the past purchases that I made with those townhouses is that, again, my mindset was if your mortgage is covered and you can pay your insurance, then that's pretty much all you need. So obviously there's a lot more to it and once I realized that, I was like, "Well, these single-family homes don't make a lot of sense. In order to scale, I need to go into multi-units to do that." And also I need to get creative because I can't afford to just pay market pricing in this market. 'Cause this... Durango itself is a very high-priced market, an average medium house today is about $508,000, so it's a high barrier of entry to get into. I knew I wanted to stay in that market 'cause I knew it, I had people there, I had a team built, so rather than start somewhere new, just continue there. But I needed to get creative to do so, so I started down the route of properties that were on the market that needed a lot of work, that I can come into that others didn't wanna do, went down that rabbit hole to start doing a lot of off-market, cold-calling, direct mail, which led to a couple of seller-financed opportunities, and then even the commercial space where we can dive into this one, too, is kind of a big turning point, but I bought a rehab center and I turned that to a four-unit multifamily apartment.

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DR: Interesting. Well, why don't we dive into that a little bit? Tell us a little bit about that deal.

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SB: Yeah. So, I guess I'll take one step and the way I was able to look at that on the creative side, is that do the off-market kind of direct mail application that I was doing. I found one lady that had a five-unit apartment that I really wanted. It made a lot of sense of cash flow, which was almost unheard of it in that market, and when I contacted her Colter, she didn't wanna sell that one 'cause that was kind of her retirement plan, but she was open to selling a three-unit that she currently lived in, and so I made an offer on that property, but I made it also a second offer on the five-unit as well.

So we kind of tied them together, even though she wasn't expecting that, and she gave me a call directly and said that opened her eyes, that she would be open to seller financing and sell both of them to me at a 0.56% interest rate. So, it was kind of a win-win situation. And the way I structured it was, I put 100% of the financing on the five-unit, and then all the down payment I was paying to her on the three-unit. And the reason for that was I could get better financing terms on a line of credit. On a three-unit, since it's a small multi-family didn't go in commercial, and so it was 100% financed on the five-unit and maybe 30% finance on the three-unit, so I immediately took a line of credit on that three-unit and that's the down-payment I used to buy that rehab center.

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DR: Interesting. Yeah, that's great. Getting creative and figuring out ways to structure deals. I know that the listeners will be asking, "Okay, how do you get a seller to offer up 0.5% interest?"

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SB: Yeah, and I think it goes back to really a lot of the space in this overall spaces relationships. It didn't happen overnight. I mean, I'd probably talk to her for three months, maybe every few days, and just getting her comfortable with myself, what I was offering and picturing it for her, what it looked like, so I just listened to what she wanted in her life and her whole goal was she grow older to self-managing everything.

And so she didn't really want those headaches, but she also wanted to build a new house closer to her family. So the way I kinda just built that relationship was giving her enough money to where she can do all that construction, and then also pitching it more or less that there's income that you'll get every month. So it's secured and you know it's coming, even though it's not a lot of interest that's still a payment on the property 'cause she had been paid off. So it was more or less building that relationship.

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DR: And it did just give our listeners some context, what was the purchase price of the two buildings together, roughly?

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SB: Yeah, it was just under 1.1 million.

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DR: Okay, great. And how much were you paying on a monthly basis? Well, number one, how much did you put down? And then number two, that 0.5% interest, what was that payment to her?

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SB: My payment to her is about 63, 6,400 a month for both properties, and my down payment, I paid was the belief 300,000 which was used from a line of credit that I took on these three townhouses that I own. So, another way I did it, commercial kind of package with all three of those townhouses. They had gained equity, 'cause my mindset was always to pay off principal, so they had equity in them, I package those together and pull the lending credit, and that's what I used for her down payment.

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DR: Okay. So basically you had $700,000 seller finance at 0.5% interest, so that's roughly 3,500 a month. Do that sound right to you and a simple principle to her?

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SB: So what we did is actually put it on a nine-year term, because the way the IRS looked at that was basically considered a short-term, not a long-term loan. So, if we would go to 10, I would have gone long-term, and that the initial rate would have been higher, so we did a nine-year structure.

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DR: Okay, great. Well, thanks for going into a little bit of that, and the reason why we even got in that conversation 'cause that was the catalyst for you being able to buy the rehab center. And I do wanna be able to spend some time on your entry into the syndication space, but I wanna close the loop here, so if you can just give us a brief synopsis of how that deal with the rehab center work that for you.

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SB: Yeah, and the perfect kind of segue 'cause that rehab center, I think is the catalyst that then got me into the syndication space, so I kind of run through that, but yeah, it was a failed kind of rehab business that really didn't go into operation, but the property itself, lived as a single-family, they had just converted it. And so they had sat on the market, it was actually on Lumet for about three years, 'cause there was a little different property, so a lot of investors didn't have a vision for what it could be. And so I actually went in there, I converted a storage room into a studio apartment, I converted a manager suite into two-bedroom bath departments itself, and then really just cleaned up the property a little bit as a whole. It was a great condition and my whole plan there was to do the BRRR method even though it wasn't in that shape, is kind of a luxury style, but about a month ago close that final loop with the refinance, it actually appraised for about double what I paid for it, and so I kinda got a ride from the market and then also the conversion into multi-family which is a better play in that market.

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DR: And so, how long was it from when you purchased it to when you're now about to re-fi, so when did you buy that?

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SB: I bought it on April 30 of this year.

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DR: Oh, interesting. Wow. That's a quick turn.

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SB: Yeah, it was a quick turn. As I said, this was, the owners before had put about $600,000 in this property already. So they had, like a commercial kitchen, high-end finishes, and so for me, it was more or less repositioning it and structuring that act like a multi-family space.

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DR: Yeah, that's great, good for you. And so how did that help you get into the syndication space?

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SB: Yeah, so because I still live in Houston, still have my W-2, I would just take trips to Durango to manage kind of the construction in the properties themselves. And when I was doing that, I wanted to be more involved in some of the meet-ups that were in the area, and so I started going to the meet-ups every single month that I was up there and just kinda telling my story, what I was doing in on the creative financing side, and really clicked with the host that was running those meet-ups, which now he's actually a partner of mine in all of our syndication deals, but I kinda got the conversation started where he was intrigued by what I was kind of doing in the space and approached me and asked really almost to do some contract work for him. I think more to test the waters to see if something could be needed of it but that was the bridge that kind of opened the doors for the syndication side.

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DR: Love it. So let's talk about that a little bit. As you were starting to formulate this relationship with a like-minded investor in the meet-up that you were going to, the host of the meetup in Colorado, what did he approach you about? What was he hoping you would be able to bring to the table that would help with the syndications?

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SB: Yeah, so he had another partner and they had been in the space for a while, just within relationships, and tried to get the ball rolling, but where they had an issue was they were getting backlogged with underwriting and they couldn't keep up. And so when they would get to something, they would present it to brokers and it has already gone. And so really a speed of execution and underwriting capabilities is what he had reached out to me for. Just kind of help, "Can you get us caught up? Can you get us organized?" And get us to the place where maybe we can start executing on some deals," and so that was the start thereof how he reached out and that was kind of the value I could bring to him.

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DR: Well, and with your background in engineering, I'm sure you naturally gravitate to that side of the business, so it sounds like it was probably a pretty good match for you, and hence the reason why it ended up working out, sounds like.

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SB: Yeah, exactly. So yeah, I did very... I mean, technically-minded on the engineering side, it kinda comes with the territory, but that's what I love to do is kind of my bread and butter, and it's actually my main role with the business now is kind of the leaders of all underwriting and due diligence on our syndication.

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DR: Yeah, love it. Then, when you were working on this relationship, how did that progress? I think our listeners, maybe they are looking to try to formulate partnerships to help them progress in the syndication space, what were some of the strategies, tactics that happen naturally? Were you intentional about trying to get this relationship to a place where it would turn into a formal business arrangement, or did it come naturally to you? What was your thought process around it at that point?

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SB: It actually evolved as we were kind of going through the process. So yeah, I wanna invest in apartments, big apartment complexes. I didn't even really know that that was a thing, I just knew that they needed help on some writing which I was kind of had a little more experience and skill set in. And so, really it's just being open and saying yes even though he didn't know exactly what was coming.

So I kinda took that opportunity and said, "I don't know exactly what this is gonna be created, but I'm interested. I wanna see what I become at it." But I think for your listeners too, is do that just take the opportunities that kinda come to you. They may not be exactly what you're looking for, but they lead to open doors, and then also, I think the perfect way to get in is to find a way you can provide value and test the waters upfront. So, we didn't create a partnership, like the day of that meeting, I kind of proved... I would say my work a little bit and could bring to the table in terms of underwriting organization, eventually capital that could help get us to the finish line on a couple of these projects, but really just not expecting anything, but helping and giving kind of an opportunity for someone that you may partner with and kind of feeling in need of theirs.

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DR: Love it. And maybe if we can get a little bit more granular as it relates to navigating a full-time corporate career while also pursuing this real estate syndication business and feeling some demands from both sides of the aisle, maybe if we get really detailed here, I'm curious to hear how you manage and what the workload looks like for you on the syndication side. Let's just say, I'm sure it fluctuates as deals are coming in and as you're working on an active deal versus, you know, underwriting a lot, but if it's a general sense of how you've navigated that balance between your corporate career and your syndication business?

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SB: I think it really comes down to being intentional with your time. I think before I really kinda get into the space. There was a lot of wasted time that I didn't really know until you kinda started blocking that out or filling it up with more intentional items. So yeah, this is all working as an engineer for a mission company here in Houston. And actually, the company I work for, their model is like syndication, which I didn't realize or I didn't kind of tie the two together until I started getting into the multi-family space but as a company, what we do is really the same structure as we find opportunities, usually, Greenfield, which is we build from the ground up, we get them in operation, put procedures in place, and then we'd look with the intent to sell them and say three to five years, but it's bringing on investors to be able to do that too.

So I think the mindset ones that click is that it is very similar to the syndication space, and so I can kinda get that understanding. But for me to kinda navigate through was really just be intentional with my time, so kind of creating a morning routine, getting up, get up at 5:00 AM every day and allows myself to kinda knock out a lot of things that I need to do, vacation space before my actual W2 starts, and then having that time after that W2 that instead of going home and watching TV or doing something not as productive, just blocking out, give me a couple an hour or two, I wanna get to the house and really catch up on the chores and things that I need to do to prep myself for the next day and following.

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DR: No, I appreciate that. That's great insight and being disciplined with that time and schedule. Whitney talks about that a lot and how important that morning schedule is for him. I'm curious, if I have the most up-to-date information, you've closed on two syndication deals as a partnership with Wi-Lo capital because your role has been specific to the underwriting and the due diligence on the front end of things, just to give our listeners a sense, how many deals are you underwriting or have you underwritten in order to get the two deals that you have acquired?

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SB: Yeah, so I think a lot of your listeners know that the marketplace now is extremely tight, cap rates are so compressed that it makes a very hard on finding deals, so just kinda a general scheme, so we look at probably about 115 to 135 deals a month. And out of those, we can probably get eight or nine that will be kinda in that area of LOIs that we can submit and be interested in, and then that kind of funnels down as well, so we've landed two of this amount. So it really is a numbers game, but that's kind of the amount of work that we've been putting into this to find something that fits our process.

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DR: And what does the workflow look like for you at the very top of this deal funnel? Where are you finding the opportunities? Do you even have a 10 plus to underwrite at a high level, and what does that process of the field funnel look like for you, starting from the very top and sourcing all those opportunities, and one of the steps to eventually get you down to where you have a deal under contract?

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SB: So we have fourth in our group, and we all kind of wear some hats, but we have leads in most areas. So for me, we've got one partner really that is the main broker relation, so he gets a lot of deal flow. And the way it starts is we've kinda had a structure of whenever a deal comes across his desk to gather all the information really that I would need to underwrite – a story of the property, any insight about the markets, and really have a summary that is then provided to myself, and from there, it's then broken down into doing the actual underwriting, a self-finding any value opportunities, and then doing the due diligence on that underwriting to see if it is an opportunity that makes sense.

So for us, it's a lead that had relations, feeds those deals to our systems and processes where then it breaks it down to, one, make sure that it's a value-add opportunity that we're interested in, it's not a different category that doesn't fit our procedures, and then also to break it down from there, all the feedback then goes to those broker relations leads in our team. So everything is underwriting is our side, we kind of push out a number or my side push out the number or the summary of what that property looks like, and then that broker relations lead takes it from there to get the rest of the feedback.

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DR: That's great. Well, Shane, this has been a great conversation. I've enjoyed hearing about this creative process that you've gone through to get to where you're at today and maintaining a W2 all along the way in a demanding corporate career while also getting into syndication business is no small feat. And so congratulations on what you've accomplished and thanks for sharing some details about how you got to where you're at, you know, it's starting with that first townhome house hacking as a college student, and ultimately transitioning, being creative with those first few multi-family deals where you get the seller finance and then use that to roll into the rehab center that you ended up turning very quickly for a high profit, and how that helped spring-board you into the syndication space, thanks for sharing that with our listeners. I wanna start winding down here, but I've got a few final questions for you.

The first question I have, and maybe you alluded to this earlier, but what are some of the habits that you've developed that have helped you to be successful? The daily habits that you developed to be successful?

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SB: Yeah, I think it's really distracting your day a little bit more, so having a morning in your team. My morning actually starts the night before, I make sure I have everything ready and packed for the following day, and really just being intentional with my time, having blocked out in the calendar, making sure things aren't missed or skipped, but yeah, time intention, I think has been a huge part.

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DR: Yeah, and since you are on the underwriting side of things, I'm curious to hear how you guys are currently preparing for the next downturn. What do you do from the underwriting perspective to make sure that you're prepared for that?

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SB: So I think the first part is the way we look at our underwriting assumptions. We had a lot of operators that they write conservatively, I think everyone writes conservatively, but just truly understanding what that really means. So rent grows, we wanna make sure that our rent assumptions and expense exemptions are in line where we're not to have one side or the other, and mileage the play itself on the properties being in the areas where they have high demand, you still are seeing population grows or demand for the market itself. I think not just the numbers of the property or what your break-even amount is, but having a good understanding of what market you're in and how that is typically affected if there is a downturn in a certain industry.

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DR: Love it. And, Shane the last question I've got for you is, what's the best way for our listeners to connect with you and learn more about what you have going on?

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SB: So our company is Wild Oak Capital, so you can look at our website wildoakcapital.com or reach out to me directly, shane@wildoakcapital.com. And we love to connect to any of your listeners, we'd love to give back any way we can, one of my partners has a podcast and actually has a coaching program, and so any way that we can kinda give back to shared knowledge, we love that, any way we can.

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DR: Great. We'll have that link in the show notes. Shane, thanks for coming on and talking to us about your creative path to multi-family syndication. I appreciate you sharing that with us and we look forward to connecting with you down the road.

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SB: Thanks. It's been a great show and I appreciate you having me on, David.

[END OF INTERVIEW]

[OUTRO]

0:28:11.0 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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