EPISODE 1166

[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 Keith Meyer. Keith is a multifamily syndicator, an operator based in California, and syndicating deals out of state. He specializes in customizing unique co-sponsorship structures with local market operators, forming relationships where roles are clearly understood and all parties are motivated and rewarded.

I've known Keith for a couple of years now, and we were at a conference together a few months back. I'm thankful to finally have him on the show, and I look forward to seeing his success, future success as well in this business. He's doing big things. This co-sponsorship structure is something that I personally received questions almost weekly about, numerous times a month. People are wondering what that should look like. And you're going to hear me say this in the show, but I'm going to say it again, you need to talk to your securities attorneys about this.

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WS: There are definitely lots of trains of thought around co-sponsoring, co-GP. Different people call it different things in our business, but it's the same thing. But you need to think through that. You don't want any gray area. We will not allow people to co-sponsor with us if there's any gray area whatsoever. So, I encourage you to listen to the show. Obviously, consult your securities attorney so you're doing this right.

Keith lays out numerous ways just to ensure that you're not operating in a gray area when you're doing this partnership with other operators. He lays it out very well, and he's done a very good job at how he has done this. You're going to learn a lot whether you are an active operator, whether you're trying to get into the space. This is a great way to become a syndicator or get into commercial real estate and build your own business. But also as a passive investor, you need to know, if you're working with someone who is a co-sponsor, some questions to ask to ensure they're not operating in a gray area. Many of them will add tons of value to investors but you need to know that as an investor. So, I want you to be educated and this show is going to help you do that today.

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WS: Keith, welcome to the show. You and I were able to speak at a conference a few months back. I'm grateful to have you on the show this morning. I know we're going to have a great conversation. You can add a ton of value to our listeners. We have a specific topic we're going to focus on today. We've talked about this too many times in great detail on the show, but it's the questions. I get questions around this topic often from coaching clients to other people that reach out to say, "How do you do this right"? And so I'm looking forward to hearing how you do this as well, Keith. But first, give the listeners a little bit about your background in commercial real estate syndication.

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Keith Meyer (KM): Yeah, absolutely. Happy to do so, Whitney. Good to see you. It's been a while. A couple of months there since we last met in Austin. So good to see your face. A lot has happened since then. So, I'm excited to be in the show today. So, Keith Meyer. I'm a principal with the Symphony Capital Group. We're a multifamily syndication team based out of San Diego, focused on apartment and mobile home park syndication. Kind of a twisting background for me. I come from an engineering background, started off in the corporate world, started dabbling in rental real estate at a fairly young age, ended up converting what was my primary residence in New Mexico to a rental property. A number of years ago, I relocated to San Diego. Got into a joint venture small syndication type deals mainly in retail and office asset classes. I can talk a little bit about that. Got into some crowdfunding-type platforms, both on the equity side and the fix-and-flip lending side. Learned quite a bit about underwriting deals and returns and tax consequences from doing that. Then, my family has a pretty extensive long background in mobile home park ownership and operation as well. So, I combined all of those avenues and learning experiences to ultimately, deciding that multifamily syndication was the best path for myself and my growing network of partners.

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WS: Awesome. It sounds like you have a great background in commercial real estate and some different classes as well that helped prepare you for bigger things, to do other things. Now you're in multifamily as well. Looking forward to getting to the topic today. One thing you mentioned, you specialize in customizing unique co-sponsorship structures with local market operators and obviously form those relationships. Tell us a little bit about that. Let's jump into that and what that means, exactly.

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KM: Yeah, definitely. So, this is probably the hottest topic and the thing that we're most engaged and excited about these days. It's interesting how it's come organically from my team at Symphony Capital Group through our journey over the last couple of years of just trying to find quality deals that we can syndicate and bring to our investors. Say, ourselves included, most syndicators start off looking to take on the entire syndication aspect themselves. They're looking to source their own deals, build their own relationships with brokers. By virtue of that, they're probably focusing on markets that are relatively local to where they can travel to easily and show some face time with owners and brokers in that market. And that's exactly what we did as well.

Our focal approach was on the southwest by virtue of being in San Diego. We made a really heavy investment of time and effort into Arizona, New Mexico specifically. We're able to close a couple of deals there, fortunately. But it was really difficult, really challenging to compete in this ultra-competitive, low cap rate market that we find ourselves in especially as relative newcomers. So, what we did at the beginning of this year was kind of hit the pause button a little bit and take a step back and say - Okay, we're having some success, but we're not scaling to the level that we really feel that we need to ultimately reach our goals. So, how can we take advantage of our unique strengths and build some scalability? And that's where we decided to partner with more local operators and more of a co-sponsorship or what is often termed as a co-GP relationship to enable ourselves to scale into more markets and more deals within those markets.

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WS: Awesome. I would also pause right there for just a second and go back a little bit. You said you paused and stepped back after realizing you were not scaling like you had hoped. Could you elaborate? What were some of those action steps you took? As you stepped back, maybe you're stepping back to look at the bigger picture of things, or maybe the business as a whole, or maybe that's how you figured out some unique strengths that you have that you could maximize or focus more on. That 80-20 principle there is what it sounds like as well. The 20% that's doing 80% of the work, or maybe that's in your skill sets as well. You say, let's grow that 20%. Let's focus on that. Is that what you did? Could you elaborate on what that process looks like? Cause I bet there are listeners who are probably in the same situation, not scaling like they had hoped, and maybe they can learn from you there.

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KM: Exactly. Right, yeah. We wanted to follow the Pareto Principle of 80-20 Rule instead of boiling the ocean, which I think a lot of beginning syndicators feel tempted to do. We took a step back and said, okay, what are we good at? What do we enjoy doing? What do we feel are scalable? What aspects of syndication do we want to grow over the next couple of years? And I'd say that came down to our ability to have more investors in syndication management and primarily the remote aspects. So we sat down and spelled out what are all the different components that go into deal acquisition, due diligence, closing, and then the successful operation of property and disposition ultimately. And we came up with a list. It was about 20 items that are all pretty big-hitters so we were surprised to see that it consists of that many different completely unrelated type components when you really break it down. That's a lot for one team to take on all of those different components. So, it made sense for us to try to find a way to partner or outsource some of those. Essentially, we listed those, (we) prioritized what we think we're the best at doing, and then sought out to find partners that were willing and able to take on the rest.

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WS: That's so smart. I tell people as everybody asks - how do you get started in this business? Cause you just said 20 different roles, essentially 20 different things. And to get a deal done to the closing table, there seems like there are more roles that pop up all the time in our team.

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KM: Only one thing has to go wrong, too.

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WS: That's right. There are so many other things. We hear about different roles from other groups as well. And we're like, you know what, that just makes a ton of sense. Somebody said “transaction coordinator” the other day. And I'm like, yeah, we could use one of those. Somebody just handles the transaction cause there are so many moving pieces there. Okay, to back up, I also tell people often - you know what, look at what you love doing, look at what you are really good at, and man, just be the best at that thing you can possibly be and hammer on that. Build your team around that. And you're going to find other people that have unique skill sets in the other areas. It sounds like that's what you have done. And tell me.

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WS: Let's jump into that now. What were some of those unique skill sets you noticed about your team? And then we're going to grow from there, how did you find the other parts that you needed as well?

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KM: Yeah, absolutely. So it's kind of two-fold in our case. So, I think our team really excels at brand building, getting ourselves out there, promoting social media, email campaigns, video educational content. And that's something that we did kind of a slow-down-to-speed-up type focus. So, being able to get ourselves out there as thought leaders and really educated, experienced syndicators and have systems in place to have those touchpoints on a regular basis so that we're always front of mind, not only on our LP investor side but also on our GP partner side. So, we've seen our deal flow just multiply tenfold from having that platform and that structure built. Then I'd say on the deal sourcing, the acquisition side, we've focused on being able to vet and screen incoming deals pretty quickly and accurately.

Fortunately, again, we're in the position now that we have a very strong deal flow, sometimes it feels like more deals than we can even handle, which is a very good problem to have in this competitive environment, right? So, we've put a lot of effort into building tools to be able to quickly assess and evaluate those deals, not only from the individual property underwriting side but also from the co-GP sponsorship side taking into account the track record and the configuration of those co-GPs as well as what their proposed waterfall structure is, to make sure that both ourselves as operators and GPs and our LP investors are being taken care of on a particular deal.

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KM: So, I'd say it takes us probably only an hour or so at this point, we're able to take any given deal from a new sponsor and run that through our screening process and be able to determine whether we're willing and able to move forward with that.

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WS: So you mentioned the slow-down-to-speed-up, and I think that's such good advice as well. To look how you did that, just like what we talked about earlier, stepping back to see the grander picture and figure out what's happening, what's working, what's not. Then, you said your deal flow, I think you said 10x, which is pretty incredible. Just to show how you slowed down to speed up in a massive way if you hadn't have done that, you probably would not have 10 extra deal flow and be able to grow as fast as you have. I wanted to also ask you for the listeners who don't understand what co-GP means, cause that's a term we use in the industry often, but what does that mean exactly, Keith? For the listeners who are like, “What in the world are they talking about?” What is that role as a co-GP?

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KM: Yeah. So, the way that we kind of position it is, we look for local operators and markets that we want to be active in. Typically, it's going to be a team, a small team that's done a couple of hundred units through joint ventures or small syndication, and they're looking to scale up. They've made local contacts with brokers and owners in that market. They have local lenders and property management connections, so they're pretty well structured to take down deals. But, they don't necessarily have the scalability to come in and bring in a strong KP that can put in hard money on day one or be able to close within a 45-day window like we're seeing these days and bring in the appropriate capital to do so. So, they take care of a certain portion of those 20 syndication components that I mentioned, and then we come in and take care of the rest in terms of syndication management and focus on asset management and capital rate. I think that we've been able to pare it down to what we can handle primarily remotely being based in Southern California and focusing on out-of-state markets.

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WS: Okay, now that's awesome. So you have a general partner, you have somebody who's maybe the operator who found the deal. But, then you all are coming in. We call it co-GP because you're not like the main operator in finding the project but you're coming in on the general partnership side of the deal and adding a lot of value to that operator. Focus on that structure for a minute. Give us some ideas. Our listeners, many of them are listening and probably trying to raise money or trying to build their brand as well, and on a similar path. Maybe give some ideas of how you structure that or what that structure looks like. You're adding value to that general partner, you're becoming part of that team. But what does that look like really?

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KM: Yeah, certainly. So I'd say the value that we bring is on the asset management and investor management side. So, what we essentially did was we took the co-GP breakdown table that a lot of syndicators use. It's funny, it's all the same model. I'm not even sure where it originated from but everyone kind of uses that base model that has roughly 30% of the GP towards capital raise and certain allocation towards asset management and then the KP loan guarantor gets X percentage. We broke that down into more granular detail aligning with the 20 or so syndication components, and we assign values to each of those components that are very reasonable in our mind given what our proposed going in configuration looks like. So, what it does is that we can kind of, on the fly, adjust as needed. If a given partner feels that for this particular deal, it's going to be kind of a different structure, or maybe they're already pretty far down the line on the acquisition side, so they deserve a bigger slice of that pie. But we have a really clean, easily configurable presentation of that. And then that ultimately rolls into a co-sponsorship agreement that we would sign with the local operator, the local sponsor that has all those roles detailed along with the compensation percentages. We found that that's pretty unique that we have all built up and templated to be able to move quickly and be really easy to partner with.

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WS: I would say it's unique. People ask me numerous times a week - we seem stuck to partner with us on projects, or how can they add value and things like that. So, that would be so much more impressive if you sent me something like that, right? Instead of just saying, how can I help? It's taking another positive step forward in a big way. So, you're laying out those things - here's the value we can add to you as the operator, and this is what that structure typically looks like. Here are some percentage breakdowns, how we typically structure this. I want to ask you, I'm sure that's going to fluctuate maybe from one operator to another that you're partnering with?

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KM: Sure, absolutely. And then again, that's where we can come in and can figure it pretty easily. When I think about what we bring as far as a team, we're able to do a lot of the investor management. We have a really slick syndication portal, and again, that investor communication platform that we've worked hard to build. So, I think we're kind of front of mind in terms of keeping the investors educated enough to speak in on the deal. And then we're also very strong on the remote asset management side. So, we’re being very competitive on NOI maximization. We have an insurance broker that we absolutely love who’s able to get us great premiums and great coverage limits as well. We're able to bring savings in that regard, even as far as the PPM document and operating agreement structure. We have, through our hard work, been able to streamline what that looks like to simplify those documents, and that ends up bringing a lot of value both to the operating partners as well as the LPs. We have a couple of other NOI maximization tricks that we're bringing to the table, and those are all spelled out within our agreement of what those focal areas will be. So, it's pretty cut and dry in that regard.

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WS: Yeah. Tell me a little bit about - How do you start to build that relationship with an operator that you're looking to partner with? For the listener that's getting started, sometimes that's difficult to first break the ice there. But actually show that you can add value or maybe it's worthwhile for them to consider you as a potential partner on another opportunity in the future.

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KM: Right, right, absolutely. So a lot of syndicates meet partners, potential co-GPs through

Mastermind groups. I think that's a perfectly valid way to do that. We've met a few of our partners through some Mastermind groups. Some of our team members have gone through. So, that's a great way to get exposure to those types of potential partners. Also, get a little bit of guidance as far as what that type of structure would look like. And again, building a brand and building your platform. We have a lot of incoming partnership deal flow, which is great in our case. So, we were able to show what we've accomplished, what our focal areas are and communicate that very clearly so that a co-GP partner is pretty up-to-speed on what we're all about before they even make that initial connection.

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WS: Awesome. I just want to say, too, before we say much more about it, you, obviously, Keith, and I are not attorneys and we're not providing legal advice in any way. However, there are many legal things around this topic that you should consider and talk to your securities attorney about, for sure. In doing this, one big thing is that you're not being paid compensation-based pay. You're not being paid based on the amount of capital raised. And that's the thing I like about Keith's structure here. He's talking about everything they can do, and that's not just raising money, and asset management as well. And there are not too many quote capital raisers unquote, or that call themselves that who do other things as well. Partnering with us, it's essential that you are doing something else. We do not want to operate in any gray area. And there are lots of gray areas around that if you don't do it properly. So, I appreciate the way Keith has laid that out that way and that well. With him and his team and all these things, the value that they can add to an operator that's outside of just bringing money as well. So, I just want to say to the listeners so you know - this is a topic that you need to talk to your securities attorney about to ensure you're not operating in any gray area, 'cause we do not want to operate in a gray area, whatsoever.

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WS: Keith, any other advice around co-sponsoring or co-GPing on a deal for the listeners before we move to a few final questions,

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KM: It's somewhat incremental. Right off the bat, we provide a one-sheet that's a breakdown of what our default splits are and roles and responsibilities. And then that gives something tangible to the co-partner to go through and kind of configure, so you're on the same page and you're able to align pretty quickly and hit the ground running right off the bat.

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WS: What would you have done differently knowing what you know now? After you stepped back and re-focused on your strengths and things like that, what would you have done differently if you could go back a year or two years?

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KM: I think we would have gone straight to this type of structure. It's such an easier way to get started. Again, we were trying to take down our own deals here locally and 100% by ourselves. That's just really hard when you're breaking into a market unless you have some built-in advantages. I think for the struggling syndicators out there who just want to get their first couple of deals under their belt, this is absolutely the best way to go.

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WS: What's the biggest risk in being a co-sponsor or co-GP?

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KM: You're relying a lot on your local sponsor so you want to be able to leverage your network. Talk to people that have worked with them, or do your background checks. Dig into their history a little bit and really vet other partners that they've worked with to make sure that they're reliable and that you can succeed and align not only on your first deal but on many future deals to come.

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WS: Keith, right now, when you're looking at projects, looking at new deals, especially with the other operators, and you talked about being able to analyze a project very quickly, which is amazing, and just a great skill set or process to have in place, how do you prepare for a downturn? How do you know that a deal is prepared for a potential downturn when reviewing it like that?

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KM: We still operate by conservative underwriting, and it's fortunate that the partners we work with do the same. So, we're looking at reasonable rent rolls. We're looking at realistic expense growth given growth rates and given the rising expenses and how difficult it is to find quality contractors these days. We underwrite our value-add rehab plan to the month. So, we're taking an actual granular look month to month. What do we realistically expect in terms of units coming offline or renovations, newly rehab units coming back online with the market rent premiums included. And what does that physically look like on a month-to-month basis instead of just speaking in generalities. So, I think having that level of detail and control from an underwriting perspective is well for us to be able to make sure that our cushion, our debt service coverage ratios, are adequate and they have enough margin for air building to our underwriting.

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WS: And I know you don't have a crystal ball. No one does but any predictions for the next, say, six to twelve months in the real estate market?

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KM: A lot of it is market-specific but we're operating in good growth markets. We try to take a little bit of a hybrid approach to offer some diversity to our investors. Not only on the deal-to-deal side, some higher in class A deals and some class B value-add deals, but also within our waterfall structure while offering maybe a flat rate preferred return. Then a class structure with more of the valuator upside on the back end. So, I think our LPs are comfortable operating with our team because of the diversity and the ability to hedge risk across multiple deal types and multiple markets as well.

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WS: Keith, what's a way you've recently improved your business that we as syndicators could also improve ours?

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KM: My team at Symphony Capital Group operates under the EOS (Entrepreneurial Operating System) and I think having that level of accountability has really helped us stay focused and stay true to our strategic goals. So, each week we have a goal-setting meeting and then a goal meeting, essentially, to make sure that we're hitting our rocks and hitting our checkpoints, and that we're staying on pace with our goals. We've really modified what those goals look like and what those metrics look like as we've evolved over time. But, I think at this point we have that pretty well dialed in. And it's just great to have that accountability, that measurement of success to make sure that you're staying on pace with what you're setting out to do.

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WS: How long do those meetings typically last?

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KM: So our Mondays, goal-setting meetings, only about half an hour. We actually are pretty streamlined at running that and then we do our review meeting later in the week, and that meetings anywhere from 90 minutes to two hours. So, really it's not too cumbersome.

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WS: What are a few daily habits that you are disciplined about that have helped you achieve success?

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KM: Good question. I really try to hit the ground running in the morning. So, waking up early. Sticking true to my calendar, keeping that updated. Trying to get a lot accomplished early on so then I'm building a lot of momentum. I usually take a longer lunch break to kind of decompress and reset a little bit. And then, hit it pretty hard in the afternoon as well. So for me, it feels like it's two days in one to an extent. So, I feel a lot more accomplished and maybe I can have two different focus areas within the same day and get a lot done that way.

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WS: What's the number one thing that's contributed to your success?

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KM: I would say it's kind of back to that accountability aspect. So, once we've got a clear focus on what our company at Symphony wanted to do - it was having clear roles and responsibilities built out so that we didn't have as much overlap as we did in the beginning. So, really having that mapped out through our EOS system and having those checkpoints to understand what each of our partners is working on on a week-to-week basis, again, to ensure that all of our goals are being accomplished and that we're minimizing overlap to the extent possible.

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WS: Was it EOS that did that for you? I mean, helped you map out exactly what every team member is responsible for?

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KM: It was, yeah. It's a very structured approach but not a lot of busy work in terms of admin and documentation. I think it's pretty streamlined and quick and easy to implement and maintain for the majority of operators and entrepreneurs that I know.

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WS: How do you like to give back?

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KM: I like to provide mentorship, that's the main way that I give back. My phone is always, always open. I'm very open with my Calendly and tell people to book time with me all the time. Usually on Fridays is when I take a lot of calls, just giving out advice on what my journeys look like, where I've been to where I am today, the do’s and don’ts of real estate investing, I speak pretty candidly on that, and I'm happy to give my honest opinion on what I think the best practices are in this industry.

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WS: Awesome, Keith. Grateful to have you on the show and really dive into a topic that we get questions about often. I'm thankful for you just being willing to share about that and just share your experiences and success and how you've done it. Tell the listeners, how they can get in touch with you and learn more about you.

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KM: Yeah, absolutely. Like I said, I'm happy to talk at any time so reach out to me. My team is Symphony Capital Group at symphonycapitalgroup.com. Email is keith@symphonycapitalgroup.com. We're all over social media - Instagram, Linkedin, Facebook. My LinkedIn is linkedin.com/in/keithme/.

[END OF INTERVIEW]

[OUTRO]

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