EPISODE 1225

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

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WS: Our guest is Mauricio Rauld. Thanks for being here, Mauricio.

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Mauricio Rauld (MR): Thanks for having me, Whitney. I really appreciate it.

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WS: I'm pleased to have you and your expertise is so needed in this business. You're the perfect guest. Mauricio is the Founder and CEO of Premier Law Group, an internationally-recognized securities firm that spends 100% of its practice on syndication for real estate investors. He regularly travels around the country speaking to real estate investors, entrepreneurs, educating them about the legal syndication piece that fits into the overall syndication puzzle. He's known for taking complex matters and making them the easiest to understand. He is jokingly referred to as one of the few lawyers who actually speaks English. He's been on the stage with Robert Kiyosaki, Kim McElroy, Peter Schiff, Brad Sumrok, and The Real Estate Guys. He is well known in this industry. Thanks again for being here. I'm looking forward to getting into it, Mauricio. Maybe give the audience a little more about your background and then we're going to jump into some big mistakes beginners make getting into the syndication business.

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MR: I started my practice like every other attorney dreams up. I went to work with a pretty large securities firm here in Long Beach, California. It's actually the largest securities firm in Long Beach. I did the litigation piece. It was actually interesting. I used to represent the JP Morgans of the world, the Merrill Lynch's, and all those guys, but I always got this stuff once crap hits the fan. I'd get the complaints and I'd have to answer them. I'd go through depositions,

interrogatories, all those court appearances, the motions, all that stuff. Even though it was a great firm, I felt like something was off. I finally got around to reading that little purple book, which I'm sure everybody's read, Rich Dad Poor Dad, and that resonated with me. I didn't want to continue working at the firm until I was 65 and dead.

I actually went to work for Robert and Russ from The Real Estate Guys as their in-house counsel. That's kind of where I started doing syndications. This was probably fifteen, seventeen years ago. Robert is still my personal client. I've been doing this for fifteen, sixteen years. A few years ago, I decided to drop everything else and focus 100% on syndication, which I think is important because a lot of lawyers, especially the local ones, were securities attorneys, but that's a pretty big field. Maybe their syndication practice is 25% and they don't have a grasp of all the rules. I'm not the only one. There are others that do 90%, 100% of the syndication. That's who you want to be talking to you because they don't have to go research anything. They know and they're updated on the latest updates on the wall.

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WS: That makes sense to me. You're in it day in, day out. There are many people in the industry. You're looking at so many different structures and types of deals and you're going to be so knowledgeable doing this every day. I wanted us to discuss some of the biggest mistakes syndicators make. When they come into this industry, there are many things we need to know before we think we're going to be a syndicator. Get us started in that.

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MR: I think the biggest issue is newbies or first-time syndicators don't know what they don't know. I think the biggest mistake is that they think that the way they're putting their deal together somehow gets them around the securities laws and they'll make up stories in their head or maybe there've been told by other people that, "No, that's not a security." They try and structure things uniquely. They'll set up a profit share agreement. My favorite is a TIC agreement. They're like, "We're all direct owners in the property. This is not a syndication," and nothing could be further from the truth. According to the SEC, the definition of security is super broad. Why we're involved in securities laws is that you're issuing the security.

It includes the stocks, the bonds, mutual funds that you typically think of LLCs, notes. It also includes TIC agreements, profit-sharing agreements, side contracts, handshakes, high fives, whatever. It doesn't matter the structure of your syndication. What matters is anytime you take money from an individual where the return is generated by your efforts, you are dealing with the security. In other words, if they're passive, they're giving you a check, and then they're going home and sitting on the couch, you are dealing with the security no matter how you structure it. I think that's probably the missing link with newbies because once you're dealing with the security, now there are three things we need to worry about. I think that's the number one mistake for new syndicators.

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WS: You said generated by my efforts. What if this person is doing something in the business? What does that look like? What do they need to do for that to qualify?

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MR: It's primarily your efforts. One of the ways where it would not be considered a security is if it's you and maybe a couple of other friends or buddies and you all entered a joint venture agreement. Everybody is involved in the deal. Maybe 30 should be ideal if you contributed an equal amount of money. In those scenarios, you're not issuing the security. You're starting a business. You, me, and somebody else got together and we started a business. It's not security, but you've got to be careful with that because the SEC has come out and said, "Once you get to about five people, we're not going to be trusting that all five people are going to be able to be doing something." I actually got a potential client who came in and had twenty people and they all wanted to be active. That's going to be a hard sell, if not an impossible sell to the SEC because there's going to be at least one person ends up doing very little work and that's going to trigger security for at least that one person. There are ways around it, but it has to do with treating it as a business.

We're starting a business as opposed to accepting money. If you're doing that, you're not taking any sponsor fees or any asset management. Why would you? You're just starting a business. I always say whenever you're dealing with securities, there are only three things that I think about. Number one, you need to register that security or that syndication with the SEC, the Securities and Exchange Commission or we need to find that exemption to registration or it's illegal. It's that simple. You've got to register, you've got to find an exemption, otherwise, it's illegal. You go through that analysis for every single transaction whenever you're selling security. I'm going to assume that not everybody wants to do an illegal offering. Hopefully, there are no Bernie Madoff's out there who are looking to commit fraud and all that stuff. You have to be a little bit careful.

Illegal does also translate into misrepresentations. It may not be intentional, but you misrepresent or you failed to disclose or you don't provide the proper documentation when you are required to. It's not fraud stuff. That's one of the things you've got to be careful about. You don't want to register your security a full registration because it takes about one or two years to get that through the process and it takes six to seven figures. If you're in a contract to buy a building, how many of you have one to two years to wait around for the SEC to approve your deal? You don't have that time. Most people in my world exclusively run into the exemption side. We're always looking for an exemption to registration. Fortunately, 90% 95% of the people who use it will be able to fit into one of these, depending on the client's needs.

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WS: What's an example of someone that would need to register? Who would that be?

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MR: It's somebody who's doing a large offering that wants to be able to go advertise into every single state and take non-accredited investors and go through that and make small investments. I had a client actually who did that. It's an oil and gas company. They were raising $50 million or $100 million, but number one, they had to go hire an attorney in every single state. That's one of the issues that you've got to deal with federal securities laws, but sometimes you've got to deal with the state, so you may have to hire a state securities lawyer. It's time-consuming. Anytime you're dealing with the government, it's time-consuming. They're not known for being the fastest turnaround people.

That's why we try to avoid it. It's time-consuming and then these guys spend $1 million in getting that offering through because for them it was worth it. They're raising $100 million and they're going to do all these great things. For most of us, there is probably another exemption now. This exemption didn't exist back then. I'd probably steer them towards one of these newer exemptions that probably makes more sense now. Luckily, there are two exemptions that 95% of people use. You've probably heard these if you're a syndicator. These are the famous Reg D or Regulation D exemptions. Up until September 21st, 2013, there was only one. This is as technical as I'm going to get, but rule 506(b) is the old exemption, which used to be called the 506.

The reason this is popular is twofold. One, it's a safe harbor, which means if we hit all the points in this rule and we follow the rules, we're guaranteed to be sure that we're following the exemption and the rules. The other big deal is it preempts state law. That's a fancy way of saying we don't have to worry about the states most of the time. We don't have to go hire an attorney in every single state that you're selling into and pay them to do the work. The federal statute overrules it, except there's still an anti-fraud division. I always joke that the states had been stripped of their power so much and they're kind of sitting around twiddling their thumbs. If they get a fraud case or an alleged fraud case, they're going to jump all over it because that's the only jurisdiction they have left. That's why Reg D is so popular. You can raise an unlimited amount of money. It's why even the big boys, Goldman Sachs and Merrill Lynch's, they'll raise $1 billion and use a 506(b) because they have relationships with all our investors.

It's unlimited money, so why not? The nice thing about 506(b) is that you can take an unlimited amount of accredited investors. You can take up to 35 non-accredited investors as long as they're sophisticated. As a reminder, an accredited investor is someone who either has a net worth of $1 million excluding their primary residence or if they're an individual that they've earned $200,000 the last two years with a reasonable expectation of earning that much this year. The bad news with the limitation back then was that you could not advertise or solicit. You could not go to a conference, for example, and pass out your business plan. You cannot do Facebook ads. You cannot do anything on your website. You had limitations. You cannot put together a webinar with the excuse of then pitching your deal. There are lots of limitations there.

[INTERVIEW 2]

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WS: Our guest is Bruce Petersen. Thanks for being on the show Bruce.

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Bruce Petersen (BP): Hey man, thanks for having me.

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WS: Give us maybe the reasoning behind the book? Kind of your purpose and how you're helping others in writing this book, what that's going to tell us and let's dive into that a little bit.

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BP: All right, the book, I felt I had to write it, and I know that sounds probably cheeseball and all that, but I felt I had to write it. I've mentored people in real estate syndications for six or seven years now. What I kept noticing is that everybody would get into this or start down this path thinking this is super simple, right? I understand spreadsheets.

Nowadays, it seems like everybody's being told or at least, went through it themselves that I can only raise about $4 myself, I don't know anybody, but if I do a deal and I bring a hundred people, as an exaggeration, but multiple people into a GP, we could all raise $4 apiece and then we can go out and do this.

People think it's a lot easier than it is, because you'll have people, these traveling roadshows that these two-day free weekend events, or very limited dollars to be paid, but they're just trying to bump you into a coaching program. Again, there's nothing wrong with the coaching program but they're trying to sell you something, somebody's trying to sell you something. If somebody's trying to sell you something, they're going to not give you all warts necessarily. They're going to tell you how great it is and how, if you join my program, you're going to rich tomorrow.

I work at 7-Eleven today but tomorrow I'll be worth 14 billion dollars. That's what they're hearing if they don't say it directly, which they're not going to say that but that's what they hear on stage. They're going to hear what they want to hear. They're going to get all wrapped up in the hype and the emotion of the event, and they're going to get into something that very often they should never have done because it takes a special person to do this. That's what I'm trying to do with the book is pull the curtain back, for the price of the book, not a $25,000 program or a $40,000 program.

I'm showing you, every step of the way, everybody that you need to work with, when you need to work with them, how to get your deal done once you're under contract. I go through everything but I've got a lot of stories in there too about how I've lost money, we've had dead people, we've had arson, we've had home invasions. I want people to understand that this is a great way to make a living, but there's a lot that goes into it and it's a lot harder than most people think.

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WS: No doubt about it. I've seen it time and time again myself. I just remember it was a big process for me looking for a mentor years ago, but it was a big process. I did not take it lightly and I'll tell you, you know, you hit on it, some there too where I went and traveled to different conferences just to hear different mentors, "mentors" speak. Just go get a feel for them and maybe talk to them in person before I handed them any money, right?

There were numerous and it just felt too sales-y. Exactly what you're saying, "I just don't feel like you have any of my interest in mind here." That made me keep looking until I found someone that I felt was more genuinely concerned about me learning the business. Knowing that it's not going to happen overnight.

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BP: Right, I feel that most of them – I think they're good people but most of them are transactional, they're not very relational, right? I wanted somebody with that I can have a real relationship with my coach or my mentor, not just be one of 40,000 people that signed up for your national program. Again, they're good programs, lots of good education but it's just, that's not what I was looking for, I was looking for somebody to be kind of in this with me.

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WS: Yes, any other myths that maybe help people kind of debunk a little bit, getting into this business, besides it's not going to happen overnight and it's not as easy as what most people kind of envision that it's going to be?

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BP: Well, the biggest myth I would think – and I don't hear as much of it as I did in the 80s, I'm 51 so I remember the gourd and gecko 80s with Wall Street – but other people's money. Zero money, zero credit, that crap doesn't work. Now, having said that, every once in a while it will work. It can work but it's exceptionally rare, it's really hard. Now, I end up with no money in a deal also but it's because I bought one with a lot of money down, 20 to 30% down, operating capital rehab dollars, closing cost, all that stuff.

But then, two to four years down the road, maybe I can do a cash out refi, pulled my money out of that point, but it did take a lot of money to get involved in the beginning. It's the people that are saying no money, no credit. Again, it's not that it can't happen, it's so hard and so rare, that's the biggest myth to me. It still is out there, it's not as common as it was, but people still believe that a lot.

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WS: What about just advising others to get started now? You talked about your mentor said, "Don't go small, go as big as you possibly can," and I know you probably get as many questions every week as I do just getting started in this business. You know, how do we do that, what does that look like? From what you know now and looking back on how you got started and you've helped many people get into this business and do it successfully.

What do you advise now? Is it, obviously finding the mentor, but as far as deal and maybe the part of the business we should focus on and things like that, what should we do?

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BP: The number one thing to focus on is money. Everybody always asks me, "Do I find the deal, then get the money? Do I get the money and then find the deal?" Always start with the money, do not find a deal. If you find a deal with no money, you can't do anything with the deal.

The way you're likely going to structure your first deal, which would be a 506(b) – I don't know how sophisticated your listeners are, if they've done this before, to know a 506(b) – if you file that way with the SEC, you can't send your deal to people, you don't know and don't have a preexisting relationship with. If I meet somebody today, I can't send them my deal tomorrow. I'm not allowed to. If you find the deal then go raise the money, well, almost without exception, you're not going to be allowed to raise that money.

You got to start with money first, and you just got to get out there, you got to get past your fears because a lot of people, most of us were taught, don't talk about money, right? That's how we were raised, you got to talk about money guys, you have to. If I'm going to talk to people at a networking event and this is where we start our relationship. You know, we're trying to get a feel for each other. An early question for me is going to be, "Okay, thanks for the interest, I'm very flattered, if I do find a deal that fits what you're looking for, how much you're looking to invest?"

A lot of people don't feel comfortable doing that. If you don't, how do you know how much you have raised? If you need a million dollars to buy a deal and you've got a hundred people and you think all of them will be good for at least 50, and then it's time to raise the money from them, actually get the money into the business bank account, and they all give you $3, well now you're stuck, right? That's the biggest thing.

Again, raise the money, build a network, build a database, get out and talk with any and everybody you can, let them know what you're doing, and what I tell people also with that respect, everybody says, "Obviously, I'll start with my friends and family," bad idea. Friends and family are going to chew you up. Because if they were going to do it, they would have already been doing.

I think you need to go to find people that are already of the mindset that real estate is a good investment class. It fits what I'm looking for. If you try to convert people, why their 401(k), IRA, the stock market is not a good idea, it's not going to go well.

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WS: Where do you suggest, say finding those people, especially getting started, someone has no network really to begin from?

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BP: Well, first, just start wit the Meetups, right? Every major metropolitan area will have 10, 20, 30 different real estate and Meetups going on all the time. I started my own Meetup and that's where almost everyone of my first investors came from. 2011, it was me and one other guy.

We just started meeting at Starbucks every other Wednesday, and that grew from just the two of us till about four years later, we were at three or 400 people. That's what I did is – I'm not the best networker to be honest. If I walk into a room and I don't know anybody in the room, I freeze, I don't know what to do, I get really anxious, my heartbeat starts to raise. That's really tough for me but by starting a Meetup, it was my Meetup, they were coming to me, I didn't have to go seek them out, they were coming to me. When they would come in to the Meetup, they would want to come up and introduce themselves.

You're seen as kind of an authority figure just by starting it. Even if you're just learning the ropes, you're still the organizer, so they're going to seek you out. To me, that's the easiest way to do it but now, everybody and their brother has a Meetup now. That's fine. You can still start a Meetup even though there's 400 in your city. If you have a different Meetup, a unique Meetup, and bring value to that Meetup, quality will always rise to the top. If you got something to say, and a different approach and you can bring value, I think to start your own Meetup.

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WS: I like that idea. We've talked about it on the show and just the value that can happen there for your own business, but I love how you use the quality will rise from the top – raise to the top. We get in there and provide value to those people that are there, right?

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BP: Yeah, like I wrote the book and everybody is well there. You know there are hundreds of thousands of books on real estate. Well, if you've got a different message or you have something of value to say and you can communicate, well, write the book, start the podcast, start the Meetup. Do whatever you want to do, don't let the fact that other people are doing it dissuade you from doing it because you'll never get anywhere in that way.

0:20:15
WS: For sure. Now, I am a walking testimony of that right there myself. So I couldn't agree more there. Get out there and make it happen. So now you are starting a Meetup, what were some success tips to your Meetup? I mean three to 400 people in a few years that's pretty successful Meetup, and I think you said you raise capital over your first deal out of that Meetup, is that right?

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BP: Absolutely. So the way it grew, it grew pretty quickly. You know I just aligned myself with other Meetups, other investing groups and we just let them know that, "Hey, I'm here at this event with you," but "Hey, I'm doing my own thing over here on the side." No pitch, I am not selling anything. I just want to talk about real estate. I am trying to learn it. I love what I am learning so I just like to sit and talk with people.

So you know, I would gather people from all of these other events that I went to, and again, it just mushroomed. People would reach out to me and say, "Hey, I've heard…" I never even talked to them, "I heard." So that network effect really started to kick in and it grew very quickly.

[END OF INTERVIEW]

[OUTRO]

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