EPISODE 1263

[INTRODUCTION]

0:00:00.0

JOSHUA CHRISTENSEN (JC): A little over a year ago when we got into looking at syndications, I was afraid of doing million-dollar deals and a million, two million deals scared me. They were big, I'd never done anything like that before. The more information I got, the more I underwrote deals, the more I understood how the whole syndication process worked, and so it's gathering the correct information to be able to keep on pushing forward.

0:00:28.5

SAM RUST (SR): This is your daily Real Estate syndication show. I'm your host, Sam Rust. Joining me today is Joshua Christensen. Joshua's over 20 years of real estate experience with over 140 million in transactions under his belt. He's recently moved from single-family over into the multifamily syndication space, working on his first deal of 310 units and recognizing his own unique multiverse experience. Joshua, welcome to the show, thanks for joining us today.

[INTERVIEW]

0:00:55.0

JC: Hey, thanks for having me, Sam.

0:00:58.0

SR: As I was digging through your profile, you have a long history in real estate and I was curious, growing up, did you know you were gonna end up there, did you have family connections, what pushed you into originally, a lot of the single-family mortgage, brokerage, that type of stuff?

0:01:13.0

JC: Drugs and women, Sam, it was all drugs and women. No, I grew up in a very working-class family. My mom was a, after my parents divorced, I was 11 years old, my mom was a property manager, that was her first job. She kinda got the free apartment and we lived on-site in luxury apartments and Section 8 housing, all over Dallas. And it was during that time, I met one of the owners of one of the properties, and one of the very first jobs I had was to walk around the property, it was a development and almost managing phase one, phase two was under construction, and there was trash everywhere, so he hired me for 30 bucks a week to walk around and pick up trash, and I made a decision back then that someday I was gonna have his job, not my mom's. So, here I am, 35 years later, and we're getting our first big apartment complex, so (inaudible).

0:02:08.4

SR: You're making good on that promise, now you were in mortgage loan, you're mortgage loan officer branch manager through the crisis of 2008. What was that experience like? What do you pull away from that today?

0:02:24.2

JC: You know, that experience was probably the most painful experience in my professional career. We lost everything, we lost our house, we went into foreclosure, we were bankrupt. I had two small girls at home, and so my girls were the age where you walk through the door and they both kind of attack your legs, knee-high and they just scream, "Daddy!" So, I used to think I'd come in the door and I felt like I was their hero, but I felt like such a zero. I mean, I had nothing in my tank emotionally, I was just devastated, I was angry for a few years, but it kind of woke me up to some things, and I look at it now as one of the best experiences of my life, because I needed that work experience, if you will, you know, to use kind of a modern term, I needed my eyes opened up to how the real world works because up to that point, and coming out of a banking background, my financial acumen came from a working class family, and the banking system teaching me what was smart financial, money management or whatever, which I learned later wasn't really the case, and having lost everything, I was really angry because I felt like I did everything right, and 15 years of retirement income was gone, everything was gone, that I had worked for up to that point.

0:03:51.1

JC: So, around 2010, I kinda woke up and I realized I've got to do something different. And I started studying, I started reading everything I could get my hands on, and I started studying house flipping, I started studying Kiosaki, Trump, Warren Buffet, you name it. I was reading everybody I could get my hands on to figure out what was different, why were they making money? And I wasn't, what were they doing differently? And I started to figure out there were patterns that I saw, and I started to learn the truth about a lie, which kinda became a marquee thing in my life. So I kinda break that down for you. A L I E. It's your basic balance sheet. Right? It’s Assets. Liabilities, Income and Expenses. Everybody has them, the wealthy have them and so do the homeless. We all have income assets, liabilities and expenses. The difference is how we recognize a relationship at each one of those has with each other and how we put them together to formulate things. The middle class, everything that I learned in the banking system was about earning income and then going out and buying liabilities and creating expenses and other liabilities to create expenses, but when I started looking at the wealthy, they were taking assets and they were buying assets that created income, and they might use a liability, but the liability helped them create income because of the net positive of the income that was created from it. So, I started to learn about cash flow and I started learning about good debt is bad debt, and all those fun things.

0:05:35.0

JC: So, I look back on to a short answer to your long question, I look back on that period. During the recession, 10 years ago, 12 years ago. Is probably the best thing that ever happened to me. I needed it to happen. Otherwise, wasn't working out. I wouldn't have seen.

0:05:52.4

SR: That's really interesting. And you're right, I think there's a way that we're trained from pretty early on and how we handle money and how we think about it, that's incredibly risk-averse, and you're focused on your income, which is fine, and then reducing it to expenses, but we never really think about assets and liabilities. Those are accounting terms. So that's not something that I need to worry about. When in reality, as you just said, when you can get that whole picture in your mind and start playing according to the rules of the game, you'll end up being a lot more successful more times than not.

0:06:29.2

JC: What I think what was really interesting when my first, 10 years ago when we first started flipping houses, I was starting to formulate this concept, I was starting to shift my mind around this, and I still didn't understand 100%, I kinda got it in theory, but I hadn't really metabolized within my system and within my thought process as to residual cash flow versus transactional income, and having been in the mortgage business, everything that I made was transactional, it was all commission-based income. In 2012, I got my real estate license, so I was still in that transactional relationship with money, so every time I close a deal, I get paid, but I have to go find another deal if I wanna get paid again. So, when we started flipping houses, it was almost like I created, I was still working for wages because the house flips were still transactional, just at a higher risk. You know what I mean? And so, not that that's a bad business model or anything, it's just that the problem I was running into was it the competition was starting to get fierce, and I was having a hard time finding any properties that had enough margin that I could still make any money flipping them.

0:07:45.4

JC: So, shifting a few years ago to a client of mine, I sold in a multifamily place, 16-unit place, and he came back me a few months later and asking management company to manage his property for him.

SR: Oh, wow.

JC: I hummed and hawed, a little bit about it, but then when I started thinking about it, I realized, holy cow, if I sell more of these multifamily properties, I'll create the transaction, but then I can also manage the properties for the residual. And I started to see the correlation of that residual and how that came in month after month after month, and that ultimately led me to meet the team that I'm working with now, who asked me about a year and a half ago to join them as their analyst, and acquisitions manager to help them with the multifamily syndication. So, it took us a better part of the last year making offers, traveling all over the country, trying to get things in, learning how to communicate with brokers, all that fun stuff, and we finally have one. We're about halfway through now we're just finishing up the due diligence on our first property there in El Paso, it's 310 units down there, so I'm fired up about building this portfolio.

0:08:59.6

SR: That is awesome. So, in that, we're talking a lot about risk and about overcoming fear, and you've touched on some of this already, Joshua, but how do you think about overcoming fear and adversity to get to the Promised Land, whatever the goal is that you've hung out there for yourself? I wanted to chat about that a little bit, how do you work through that in your own mind, in your life?

0:09:15.9

JC: Do you know what? I'll start out with identifying our comfort zones, so if you stop and you think about where we are today, everything that we've accomplished up to this point, we have some kind of a basis of knowledge around what we've done to achieve today's success, if you will. And so everything we have today is "in our comfort zone" we know how to do it, we've done it before we know how to do it, we're comfortable with that. Fear represents everything that we want, that's outside of our comfort zone that we haven't yet achieved, it is that world of unknown, so if you're standing in the middle of a circle, everything inside the circle's, our comfort zone, and that circle represents the worst rubber band effect of our life, and fear is the driving force, it's like a force field that works all the way around us, and we have to look at fear as a doorway to everything we want, and in order to overcome fear, all we need is a little more information because most fear is not based on anything real, it's based on our own ideological problems, the bad information we received, growing up bad information we've received from friends, family that have bad experiences, whatever, but it's not necessarily based in reality today. And in order to overcome it, we just have to kick in those doors. And so I started realizing that fear, if something starts to show itself as fear to me, I realize that that's a door I have to kick in, it's not something I need to run away from is something I need to run towards, and I need to gather the information, and the harder...

0:11:03.5 JC: And the faster I run towards it, the faster I'm gonna fail, and if I can find somebody that's already broken through and they're already achieving what I want on the other side, then it's almost like I found a key to unlock that door and run through it, even faster. So, fear is just a metaphor for me anymore. It's not real, you always see that phrase, False Evidence Appearing Real. Or Forget Everything And Run. And for the most part, our whole fight or flight mentality that we're kind of born with, it's a survival mechanism that our brain tells us to avoid pain, and most of the things that we are afraid of aren't gonna kill us. There's not a sabretooth tiger lurking in the forest. It's gonna kill us. So, we run from things that we don't need to run from, and they're not life-endangering fears. Nothing really horrific is gonna happen if we don't succeed in what we're doing, and so I've basically looked at it as the formula for success is to fail often, fail faster and fail bigger.

0:12:10.9

SR: What's a recent example of that where you had something, you kick the door down?

0:12:15.0

JC: After going through the 2008 to 2010 debacle, one of my greatest fears was, there was a period when I was growing up that we didn't have any food at the house, I was in high school, and I lied to my dad to sign a waiver so I could get a job as I wanted to buy an extra lunch at school. So, we didn't have any food at home. So going through that 2008-10 debacle, I had this real fear that my kids were gonna, they would know hunger. And that scared the heck out of me. I didn't want my kids to ever experience hunger. Fast-forward to 2016, I was offered a ministry role and we moved out to California, in California, then in itself, in a way that we're not making the money that we needed to make to be able to survive out there and all of a sudden, I found myself facing those fears again, we came back to Albuquerque, started a church, and three months later, it didn't work out, we parted ways with the church, but I was unemployed and I didn't have any income outside of the unemployment. And every day when I got up, I was terrified that I was my kids were gonna understand hunger and I put them right back in that situation. So, it was every day getting up and fighting through that fear to start rebuilding my real estate career. 2019 we did okay. 2020 was the best year of my life. 2021 was even better, and by the end of next month, I will have doubled what I did last year, so you want something recent that's kinda. A little over a year ago when we got into looking at syndications, I was afraid of doing million-dollar deals, and a million, two million dollar deals scared me. They were big. I had never done anything like that before. The more information I got, the more I underwrote deals, the more I understood how the whole syndication process worked. The deal we're working on right now is 24 million, and the stuff that we are looking at for our next deal is gonna be bigger than that, and so it's gathering the correct information to be able to keep on pushing forward.

0:14:25.7

SR: What are you guys doing to increase your deal flow, you're coming out that from a couple of different angles, right, you're part of the syndication group, you've been a broker, you've been in the single-family world, what do you do to increase deal flow?

0:14:37.8

JC: I've got a partner that is just, he is amazing at relationship building, and he's got more deals and he knows what to do with what are flowing at him. He's got relationships with a ton of brokers all over Texas, all over the southeast, and I can't keep up with the underwriting of the deals that he sends me, we've got too many coming at us. So, because we're still fairly new to the whole space, and we haven't proven ourselves yet, the deals that we're getting are still pretty over-valued. We don't have the relationships with the brokers that they have confidence in us yet to where they're sending us the nicer deals, the nicer off-market deals, but they're coming. And the relationships that we're building, those deals are coming, so we're really excited to get this first one done because it's a huge proving ground for us to be able to show these guys look, yeah, we just closed this one, give us this one. So, deal flow has never really been a problem for us, it's just finding the right deals.

0:15:36.1

SR: Sifting through and finding those nuggets is the hardest part of the whole process. You have to kiss a lot of frogs to find the princess.

JC: That's right.

SR: As you guys are evaluating markets, I'm just curious, you said Texas Southeast, I know you're working on a big project in El Paso, what are some criteria that are important for you guys?

0:15:59.8

JC: Unlike a lot of syndicators, our business model is more of a buy-hold. We're not buying to exit in three to five years. So, our criteria are a little bit different. So, we want stable markets, we obviously want growth markets, those are gonna be strong to help us with our NOI and drive the value and stuff so that we can refinance in a few years and return our investors' capital. So, we wanna see good steady job growth, we're not necessarily the high flash and the excitement of hot markets, because we're not trying to necessarily what do you them, blow and go, and try to exit in three years. These hot markets that have these phenomenal rent growths and everything over the last couple of years, a lot of them are overvalued a lot of the properties, a lot of the assets that we see are overvalued, so we have a pulse on those markets, DFW, Houston, San Antonio, Austin, they're great, but there's not very many people looking at El Paso and El Paso has a lot of potential for a long-term hold. I kind of made a decision that I want my grandchildren to own the real estate that we're buying today, and we are becoming, rather than being traders of real estate, we're looking at becoming collectors of real estate and holding on to it for the long-term cash flow. Every time I refinance it and pull cash out, I don't have a taxable event that I have to worry about at 1031, and once we pay our investors back, then they've got their capital and now everything they get is an infinite return, so we can re-deploy their capital and keep on working at about every four or five years, six years, we'll do a refin pull cash out and deploy that, and that way we're just stacking cash flow through the years. So, our criteria is a little bit different than I think probably most people that you look at.

0:18:01.0

SR: Are you guys singularly focused on that, 'cause I know there's a lot of groups, and I would put Life Bridge Capital in this camp where we're being strategic, there are some deals where we come in and we maybe don't wanna hold that asset for 10 years for a variety of reasons, maybe it's age, vintage, style of construction, but we see an opportunity, the market has underpriced it, and we can come in and drive a significant amount of value in the short term. Are you having a foot in both camps or are you just, hey, if we're gonna buy it, if we're gonna fiddle with it, we gotta hold it for almost indeterminate amount of time?

0:18:34.4

JC: Everything's always for sale, right? Everything is always for sale. I learned that a long time ago. So, I'm not gonna say that we're never gonna sell an asset, our goal is not necessarily just sell assets. Obviously, if we've got something that's under-performing or we think we can deploy and do something better with, then great, but here's one of the challenges I see to the short-term access strategies that I think, in my opinion, we are doing a disservice to the residents and to the staff of these properties, having lived on these properties growing up. One of the most disruptive things to residents and to staff is ownership change. And I'm watching a lot of the syndicators, and then I'm not down on it. It's just a different business model, right? I'm just, these are my observations, but I'm watching a lot of this where you go in and we improve the property just enough to raise the value and leave meat on the bone for the next syndicator and for the next investor to come in and be able to buy it as a value add or whatever. So, we're under-improving properties and creating almost a false hope for the people that live there, and so I feel like as an owner-operator, my goal is to look at all the stakeholders involved in this, and rather than touting our assets under management, one of the key metrics that we're gonna start looking at is how many employees do we have and how many lives are we affecting with employment, how many lives are we affecting, how many residents do we have, and how are we impacting their lives? What kind of a difference are we making in their lives? Are we improving the place that they call home? Are we making it a better place that they wanna live? How can we provide that to the community as well? So yeah, everything is always for sale. I have this deep endearment for the people that live there, even though I've also property-managed them and they don't have an endearment for me. So, there's that, right? I bought my first-hand gun when I was a property manager because I got threatened. Somebody threatened to sue me. You got a little of this, a little of that, but I do feel a sense of responsibility for the people that live in our homes to people, they are ultimately our customers, so we wanna create a better world, we're gonna go in and we're gonna make improvements in these assets, and we're gonna look at improving all of the units we're looking at doing things that probably most people wouldn't work, but because we've got a long view and the return is gonna be there.

0:21:24.5

SR: I appreciate that. So, both Joshua and I were at Best-Ever Conference 2022 here in Denver, Colorado back in February. And they hosted a debate style, Ben Lapidus, who's the host of the conference really enjoys these debate-style sessions, and so you had John Chang and Kathy Fettke on one side, and Hunter Thompson and I forget the fourth gentleman's name, but they were basically talking about or debating the statement 2022 will have more transactions than 2021. 2021 was a record number of transactions, I don't know if you were in that session specifically, but I'm curious for your thoughts, do you think that there will be more transactions in multifamily in 2022 versus 2021?

0:22:08.0

JC: That's a great question. If we don't exceed it, we're gonna be right up against it, I think there's such a huge appetite right now for multifamily investing, and one of the things that I think is really driving it, it's the same thing that started driving the single-family flips 10-15 years ago. And back in 10-15 years ago, HDTV, they start showing a lot of those flip your house shows, and next thing you knew, we had gurus cropping up and showing up in town, there was a new guru every weekend teaching out of flip houses. Well, on every YouTube channel on everywhere you can look now, there are people teaching how to syndicate multifamily properties. And I think we are seeing an influx of new syndicators and new investors were seeing an influx and an appetite. There's a huge educational push for retirement funds and LP investors teaching LP investors how to create passive income. There's a lot of people out there that are fearful of the stock market, and inflation tends to drive fear in the stock market, where real estate tends to be a hedge against inflation. So, I do anticipate that we're gonna see a flight from equities over to more tangible assets like pertuan real estate, multi-family real estate, but I think the biggest thing that's really pushing this swell, if you will, is the number of people out there educating the public on multifamily investing. And I don't think we've ever had the volume of educators that we do right now because the internet has made things so easy. Like, for example, this podcast, we're gonna reach however many tens and tens of people. Right? There's gonna be people that will listen and say, hey, I wanna get into multifamily investing, I wanna learn something about that. So, there's more, I think we have more and more players who are entering the field.

0:24:21.6

SR: It definitely, and there's certain rules that are rumored to be relaxed by the SEC here soon around the raising of capital that could really blow the doors off of this whole industry, but it certainly has changed a lot. Even in the four years that I've been doing this, there's so many more podcasts, so many more people trying to break in, and the volumes certainly are picking up on the transaction side as well. So I know even in our portfolio, we've seen a huge uptick this year, versus last year, as far as off-market offers, the amount of aggression that's in the markets right now from larger groups is pretty eye-opening and maybe a little bit worrying, but we're gonna make hay while the sun shines in.

0:25:02.6

JC: That's exactly it, that's exactly it. I look at the way the markets operate. I've been through, in my career, I have been through three down markets recycles and between the mortgage business, between real estate cycles and whatnot, I think we will, I do believe that here in the next three to five years, there's gonna be a correction, I don't see a crash coming, but I do see a softening that the markets are not gonna be as hot as they are, where people can just easily walk in and raise the rents and turn around and sell the properties. So, operators are gonna have to get smarter about how they do their value adds, and this is a terrible thing, and I hope I'm wrong about this, but I don't think I will be. I think there's a lot of people right now that are teaching, that may not be standing in a few years when the markets turn because they won't know how to, they won't know how to pivot. And it happens in every cycle, right? You got people that think they're geniuses because the market makes them smart, not so much that they really understand the fundamentals, and I think we're gonna, I think we're gonna see a lot of people in the next few years that we'll see some corrections in both the number of operators as well as the number of deals.

0:26:24.1

SR: I would agree. I think it'll be more about operations in the next 10 years. The last 10 years, it's more about, were you in the market? Did you have exposure? If you did, and you had more than a three-month time horizon you probably did it okay. Awesome. Well, Joshua, I really appreciate you joining us today and sharing so much about yourself, if folks wanna reach out and get in touch with you where can they find you?

0:26:47.4

JC: I'm on LinkedIn. You can find me at Christensen Properties PERE. That's Private Equity Real Estate, and then you can also, you can send me an email at joshua@christensenproperties.com.

0:27:00.4

SR: Fantastic. Well, thank you to our audience for joining us. This has been your host, Sam Rust, on another episode of The Real Estate Syndication Show, signing off.

0:27:09.0

Whitney Sewell: Thank you for being a loyal listener of the Real Estate Syndication Show, please subscribe and like the show, share it with your friends so we can help them as well. Don't forget to go to LifeBridgeCapital.com, where you can sign up and start investing in real estate today. Have a blessed day.

[END]

