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[INTRODUCTION]

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Whitney Elkins-Hutten (WH): You have to understand what your goals are. Do you need cash flow? Do you want the equity bonds? What kind of risk tolerance do you have, are you wanting to do more kind of a development type deal that has probably a larger business plan risk but maybe larger rewards to it, are you looking for more of a stabilized asset? Do you need tax benefits?

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Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today our guest, she was on the show over a thousand shows, actually over 1100 shows ago, and now, and she has come a long ways in this industry. She's been investing in real estate for many years, but over the last number of years has got more in commercial real estate and syndication and has educated herself above the most.

I'm so impressed at what she has accomplished, and now she is the director of Investor Education at passiveinvesting.com. Her name is Whitney Elkins-Hutton, and she's a partner in 700 million dollars worth of real estate, including over 5000 units, these numerous asset classes, but more than 1400 bus self-storage units as well across eight states, she's flipped over 3 million dollars worth residential units as well. so just a vast array of experience that she has in this space, and just in real estate in general. But she has become an expert. It's in passive investing. It's incredible.

So we talk through different things, different questions that she gets often, but you're gonna hear what passive investors need to know about the difference between maybe syndication versus a mutual fund or versus a REIT and things as a passive investor, you need to understand and think through, Right? But even in asset classes and maybe some myths around how to think about asset classes when you're getting started in passive investing and working with different operators, you're gonna learn a lot, and there's some things you need to know before you make that first passive investment. Maybe your second or third or fourth, if you don't know these things as well. She's even gonna talk about some of the biggest concerns right now for passive investors in our current market. You're gonna learn a lot from Whitney today.

[INTERVIEW]

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WS: It's interesting saying, Whitney, welcome to the show, but Whitney, welcome back to the show. Honored to have you back on. We've known each other for a number of years now, so it’s neat to see your progression and growth in this industry, and all the people you're helping now to do the same thing.
And so you were, we were just talking about it beforehand, your first appearance on the show was show 106, that was February of the 4th of 19. So it's so interesting now, well, over a 1000 shows later, what's happened for both of us, but I wanna focus on you, of course, give us a little bit about, give the listeners an update, what are you doing, what's your focus now, and let's dive in to some of your expertise that's gonna help them.

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WH: Yeah, well, first of all, thank you so much for having me back on the show. I loved it. Whenever our common friends, you know, we were, you know, we're just recently in a conference and they watch us and they're like, “Whitney squared!” I was like, “Oh, that's funny!” But as far as me, where I'm at currently, I think last time we were on the show, I was focused directly on just building my single-family portfolio and beginning to make those transitions into passive real estate on a larger scale, but actively impossibly. And where I'm at right now is I'm the Director of Education at passiveinvesting.com. And really what I get to do every single day that just totally lights me up is just educate investors on the power of passive real estate and how they can use passive real estate to scale their portfolio. Maybe they wanna be a full-time passive investor, they want that lifestyle type of asset to be able to have that freedom of everything, of choice, of time. Or maybe they are an active investor and they are needing to scale their portfolio in a different way that doesn't require all of their time to do it.

So I get to engage with people on a daily basis and just help them understand asset classes within passive investing in general, but also kind of bounce around some ideas, some best ways to deploy their capital.

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WS: What's one of the most common questions, or even reservations, hesitations that you have to answer, on an often basis from investors that's keeping them from moving into investing, Possibly in this type of opportunity?

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WH: Yeah, there's really two types of investors that I think that I speak to that have that kind of roadblock, hang up. One, maybe it's somebody coming from stock funds and mutual funds, typical Wall Street type of investments. And they understand that there's a lot of volatility in that type of marketplace, and so they want to either diversify or just really just kind of pull some of those funds and transition with them over into more of a main street type of investment. And they just don't understand how is a syndication different from a mutual fund?

So really, what I help them understand is, especially if they've owned their primary residence, I'm like, “Hey, you own the roof over your head.” Really, what we're doing in the syndications is we're getting a group of people together to buy multiple roofs that go over people's heads, especially if we're talking about multifamily.

A little different conversation if it's self-storage or car washes or something like that, but really what we're doing is we're just gathering a group of people together to acquire a larger asset than they probably could on their own, and this larger asset has an element of scale to it, in the operations and the expenses, to it, we can put better debt on the property and we can really kind of normalize the risk for that type of investor. So, really helping them understand how this investment might be better for their portfolio or even just like complementary to what they're already doing.

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WH: And then you get the second type of investor, I was just talking to an investor yesterday, he's like, I've got my single-family rentals, my small multis, why on earth would I give up that type of day-to-day operational control to invest in a larger multifamily or self-storage project? And that conversation is a little bit different because that investor understands they are used to taking their capital into their control, overseeing it, deploying it, they understand real estate. Now, why would they give up that type of control, and it goes back to the six points of leverage. Right? Especially maybe they're doing single-family homes, but if they're all in on single-family homes, they're missing out on some uncorrelated assets in real estate, how can they actually take advantage of these different asset classes without having to become the expert in those asset classes? So, it helps them better protect their bottom line because they can diversify without having to re-engineer their entire operations to add in these other asset classes.

They can take advantage of a professional operating team, they can take advantage of the networks that the team has put together, all their real estate brokers, property managers, insurance agents, lenders, they can take advantage of their market and expertise so they can diversify outside their market where they're currently investing, or maybe even outside the current strategy they're currently investing in, and then they can take advantage of that operator's ability to get credit and lending.

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WH: I know when I made the transition from single-family to multi-family, especially on the active side, I was like, “Oh boy, this is a whole different world of lending.” I gotta re-engineer this entire process, and I couldn't just go out there and get it an 80 million dollar loan, that just wasn't an option for me. I can now, I don't have to be the smartest kid in the block or had the deepest Rolodex. I can right now access an asset with that type of debt on it. And then that operator, I can leverage their ability to get other investors’ monies together that other, investor capital, raise that capital to access a larger deal that can be more stabilized for my portfolio.

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WS: No doubt, I just think it's so great to reiterate everything you just said. I answer the same question so often, right. It's like, well, why would I go invest in a syndication when I just made so much money selling the single-family home that about five years ago, and I'm like, okay, how many times can you do that? How much time are you gonna spend finding the next single-family home? Can you do that right now? Are you taking all these calls from the tenants? Are you going and fixing the toilet, it's, oh yeah, yeah, I am doing all those things.

Let's think about this a little bit like it, I cannot agree with you more, just on the amazing opportunity that this business provides to investors. You talked about syndication versus a mutual fund, something like that a little bit. What about like a REIT? Syndication versus a REIT? I hear that often, like why should the listener, the investor, think about one or the other, or even mutual fund or REIT or syndication, which, kinda your thoughts on that?

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WH: Yeah, it's for me what I really appreciate in the syndication model is that I do maintain elements in control. I as the investor, I get to control the investment strategy, like my investment strategy. What am I after cashflow, appreciations, and sort of balance kind of both, am I after-tax benefits, I get to control that. In a REIT, I don't necessarily, unless I'm selecting in some sort of private REIT, okay, but even then, I don't get to control that for very long, right? 'Cause the private REIT, they can make a business plan change.

After you invest in year one, year two, or three, they can make an entire business plan change, and then all of a sudden, the impact to me is different. Two, I get to choose the operator that I invest with. Right? Once I understand my investment goals, my risk tolerance, and what I really want, now I can actually go out and find that operator that we have a good rapport with. I might work with passiveinvesting.com, I've invested with other operators, I've invested with you, Whitney, that is part of the strategy. I get to create that diversification across operators to hedge my risk in my portfolio.

And then also I get to diversify the market in which I'm in. I don't get that type of control in a REIT. And then I can diversify, if I'm staying within a syndication, I can diversify the actual investment that I'm going into. So, even if you're with an operator and you like on a majority level, their deals that they've put out, they might put out one deal that you're just like, well, I'm not really sure about that market or I've got enough B-class in my portal, maybe I'm gonna go after an A-class or a C-class property to add to my portfolio, you can diversify into the deal and you're not kind of pigeonholed into that REIT, and that gives you an element of control.

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WH: You can also control the timeline whenever you're in a syndication. Okay, and to some extent of the fund, especially if you understand how the fund is being put together at the very beginning, you can control the timeline and you give up all that control going into REIT.

Now, that said, that gives you a whole other level of your time freedom back, because now you're not underwriting the operator, the market, and the deal, you just write one check to the REIT and you kinda wipe your hands clean and you're just studying it and forgetting it. you can do that in a syndication with a little bit of time investment, I mean, last year, I think I made 10 investments, probably spent 10 to 15 hours total for the year managing that side of my portfolio. Whereas on a REIT, you might, maybe you made one-hour investment. Right? You give up a whole level of control.

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WS: Love that. That's a great explanation. And I think too, it depends on your knowledge, even being able to do the background like you've become very knowledgeable in this industry, so your level of due diligence on an operator or even a REIT would be different than some that are just getting started. I love the relationship component, right, that somebody has with you and they develop that trust and hey, they'd much rather do that than maybe a large REIT as well. Just the elements of control that you listed.

What about asset classes? I know, and just full disclosure, I love passiveinvesting.com team, I've known them for many years now as well, but I know they're going to some other asset classes, speak to asset classes maybe for that passive investor, what should they consider? Do I need self-storage? Should I think about multi-family? I hear so many different ways that I could diversify or maybe different markets or operators, but ultimately, let's talk about asset classes a minute and use to your preference or maybe how you guide that new passive investor.

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WH: Yeah, I actually had a really great conversation with a potential passive investor yesterday, a dentist, he was like kind of like into the beginning of the conversation, he was like, what, do I sell single-family or do I go into syndication, if I go into syndications, what do I do? And so we really kinda helped him work through, or I did help them work through a line of questions so he could write his own conclusions of what might be best in this portfolio. Now, why do I bring this kinda back to the beginning?

Well, you have to understand what your goals are. Do you need cash flow? Do you want the equity bonds? What kind of risk or tolerance do you have, are you wanting to do more kind of a development tech deal that has probably a larger business plan risk, but maybe larger rewards to it? Are you looking for more of a stabilized asset? Do you need tax benefits? The tax benefits between multifamily and self-storage are entirely different. Okay, now you can still do cost segregations in both, meaning we can break the components down on multifamily buildings or self-storage buildings and accelerate whatever we can to the first five years of the project.

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WH: But the underlying in tax schedule in a multifamily building is 27 and a half years, meaning I'm probably gonna be able to accelerate more to the first five years on a self-storage building it’s 39 years and you're buying a garage, not much breaks down for 39 years. So what I can accelerate forward is less.

So, really kind of thinking through exactly what you need, so as far as what asset classes that we have available and how I orient to them, we have multifamily, we have self-storage, we have car washes, we have real estate debt. We're gonna be adding hotels here later on, but really the underlying thesis of everything and how we are positioning assets are all predicated on passive and investing.

Like what, in generating cash flow and equity. Multifamily right now, where we are in this environment is a little compressed, meaning my pref rates or pref returns are probably gonna be closer to 6-7% on those assets, it's gonna take me a little bit longer to cash flow because I'm probably buying a slightly higher purchase price to get into the asset, and so I've gotta wait for those rents to bump up.

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WH: So there are a lot of places, and you know, we saw this, I don't know your experience in 2020, in early 2021, it was like, it was game on again, it was so competitive in the market, and then we saw a lot of our syndication group friends over-paying for property. So, you really have to be able to make the deal on that. Now, on the self-storage piece, this is still very much a fragmented market, there hasn't been a lot of institutional money that is done into the market, we're starting to see that change, and so we're still able to acquire some of these properties from more mom and pop operators.

So, there's a greater potential for us to get higher cash flows initially from day one, and then hold that asset and either do some sort of expansion deal on it to where we can immediately bump up the equity position on the asset. The cool thing about self-storage is that we can acquire multiple of those properties, move it all together and exit just like a REIT, right? There was a big purchase that happened last year with a major self-storage group, they sold 26 of their properties on one spot, so those type of things are happening.

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WH: Car washes are a little bit of a different piece. You're buying real estate, but there's an operating business, commercial business on that real estate, and so the depreciation works a little bit differently, those are gonna be the longer holds five-plus holds, we don't know exactly how we have multiple opportunities for exits. Do you do a triple net lease? Do you do an IPO? Do you roll up all those car washes to REIT? You can break them apart in packages and sell them to other groups as well, but those are more cash flow heavy and probably not as equity-heavy and the taxes work a little bit different.

So, I kind of put a little pretty bow on it. What do you need as an investor, do you need cash flow, do you need equity, do you need tax benefits, and then really partner with the investing, the operator to understand which of these probably and how their acquisition process works, because how we purchase multifamily is gonna be different from how you, Whitney, purchase multifamily. So, you really need to partner with an operator and understand how that particular asset would work in your portfolio.

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WS: Love that answer. And so they're just thinking about a specific asset class, we think a lot of like self-storage more than multifamily or, I like multifamily more. It’s like, well, what do you really need for your personal portfolio, what's gonna help you build the most wealth as fast as possible, right, with maybe the least amount of risk. And thinking through the tax benefits, I thought that was a great point as well. That one asset class versus another, just the tax situation for each of those, 'cause it's not the same, it's not the same, and depending on how much you've invested passively in the past, how much appreciation you’re already getting, all those things need to be taken into account. Don't they? So what about your biggest concerns right now, Whitney, for passive investors in just our current market. I know that like there's listeners that are wanting me to ask that.

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WH: I think right now, it's chasing yield, and I say that it's kind of like, especially in the single families, I still have my single-family portfolio, I used them as little mini TMs, I harvest the cash flow, I harvest the equity offered them periodically to continue to scale the passive side of my portfolio, but it's really chasing deals. I got an email from an investor the other day, and he was like, hey, I got a 100,000 that I wanna invest, I must be at 8% preferred return. What do you got for me? And I was like, well, again, we get back to this, what are your goal questions, what do you really, truly mean, and what kind of risk are you willing to take on for that type of 8% preferred return or the other parameter you wanted to 2.5 X multiple and a 20% IRR, I'm like, well, what kind of risk are you willing to take on for that?

So, for what investors, how they need to orient, it's really about orienting to today's market, where we're at, we're a little toppy in some parts of the cycle, like multifamily is pretty toppy, so storage is still on the climb right now, car washes are a newbies for us. So, you just really need to understand and take care of where you're at in the market cycle and be willing to get in the game, because even if you do a deal that's 15% IRR, if it's stabilized, if it's cash flowing, you're hedging your risk position, you're investing in an asset that's gonna give you inflation protection, especially right now, and we don't really truly know what the inflation rate is, and then once that part tampers down, the capital is gonna cycle out and then maybe it's a different type of market and that like 8, 9, 10% preferred return is back, right? So it's just you have to get in the game, but you also have to understand that it's not all about chasing yield.

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WS: Great answer, love that, and I love how you approach it, asking them questions and helping them to come to that answer almost in their own right. Helping them to see a bigger picture than just that preferred return.

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WH: The real key thing here is capital preservation, where we're at in our market, but at least that's how I am orienting to everything, that's the reason why I still invest in real estate actively and passively is capital preservation right now. And I would think a lot of investors though, they think like, what can happen on the property where I can lose all my capital. That's still a risk. We need to mitigate that. Right? That goes back to the operations team. But right now, do you have money in the bank that's sitting there, That's what you're doing. You're losing capital.

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WS: No doubt about it. You're losing a lot sitting in the bank. What about even thinking through that as investors are looking to invest, and I ask this almost every operator or investor that we have on the show, but just preparing for that downturn? How do you like to see an operator prepare for a downturn? How do you all maybe prepare or answer that question to investors maybe on a deal-by-deal basis, or however you wanna answer that.

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WH: When we talk about the downturn, nobody can really truly predict it. Do we think that we're actually at the top of the market and some asset classes, and then we wanna see some sort of slide? Yeah, that potential is always there. I remember listening to an economist two years ago, they said, we're gonna have the (inaudible) 20’s, and by the end of the 20’s there's gonna be a huge recession and depression. Guess what had happened? Covid. That’s what’s here now. What was supposed to happen? That whole cycle accelerated so much faster, I don't think it's ever about preparing right now or for a future recession, it's like you have to be thinking about that risk mitigation all the time, right. But you can't always sit on the sideline. So, okay, off my (inaudible) there on that. So, how do you prepare for that? One, really partnering with the operator and getting into know, love, and trust that operator, understanding what their investment strategy is, making sure that it aligns with your portfolio. I created done this mistake for myself. I guess one of my first passive deals that I did probably five years ago, I swung for the fences on a deal with an operator that one of my friends knew. And you know what I lost? I lost money on that deal. It happens, right? So really vetting the operator. What is their knowledge about the investment strategy? How have they been doing this? What is their bench, their team like? What are their knowledge and expertise? Have their deals list. Have they gone full cycle? What do the exits have been? Really digging in on that operations team.

Also the market, I really love being in growth markets for a very specific reason because I'm hedging my vets with the market. If I'm doing multifamily, is the population growing, is the incomes growing? Are jobs growing in that area? Is the industry coming to that area? Is the industry diversified? Even getting down to the deal level, what is the population of the tenants’ lease that lease on that multi-family property? If we're talking about multifamily properties, how are the job profiles? What are their income profiles? We can gather, we can aggregate that data, and take a look at it to hedge our risk in that particular investment. The debt on the property, even getting down to the deal level, how is it being underwritten? I know I jumped into the debt, but I’m gonna backtrack a little bit. How is the operator underwriting a vacancy? Rent increases? Are they maybe doubling the market vacancy? Maybe even tripling the market vacancy? We saw a lot of operators had some with that during Covid. They underwrote at a 3% market vacancy. Guess what? They had a 9% economics vacancy on the deal. We wanna see conservative underwriting on that, we wanna see conservative rent projections, right? If we're okay with the conservative numbers, if we blow past those numbers, everybody's happy, right? Under promise, over-deliver. And then the debt, I think that debt is really kind of a key investment piece right now. Is the debt being placed on the property going to allow you to hold the property through this volatile environment or this unknown environment? I wanna see interest-only, for at least an interest-only rate, at least for the term of the hold, right, with options to extend that rate further or swap the debt for something else. Should I have to hold it longer than five years or seven years, whatever that timeline is.

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WS: What about your best source for meeting new investors right now?

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WH: I'm digging conferences. I still do a lot of online stuff. It's funny, I never do an online meeting before Covid, and then I felt during Covid, I was like, this actually really fits my personality very well. I also do a lot of educational master classes, I do weekly master classes, and it's life, that's exciting for me because I can invite pretty much anybody that I want to there, and we get to have an educational portion of the conversation, but I kinda call it the after-party, the investor stay on and we’re just kinda hammer on all their questions and really get to see to know each other.

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WS: That's awesome. And how did you, I guess, lean towards some kind of online platform or that meet-up, and what would help the listener to break past that, the living life that they can do that just like you did.

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WH: You mean if they're an investor and they wanna find operators?

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WS: Well, maybe they're an operator though, that's looking for passive investors, they'll just be doing it like you've done, you're providing so much value to those investors, how could they create something like that or what helped you to push yourself out there to be willing to have that online class like that?

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WH: You know, it was, It wasn't even really my idea, to begin with, somebody suggested it to me like, you need to do a master class where you kind of (inaudible) for the answers. And I, really, the objection in my head, just like the alarm bells went off and the imposter syndrome, the “What if?” Even down to me, and like the technical piece of it. Pushing the button and what happens if my computer crashes, what are you all gonna think of me?

And here's the thing, this is really what I found is that people just wanna connect with something that’s genuine, and you know me pretty well, but also I probably used a little bit right here in this episode. I oooh and ahh all over the place. I'm not the most polished speaker, but I really love what I do, and if you love what you do and you generally wanna help people, you're doing a disservice by not putting yourself out there and either educating or putting the deal in front of somebody because that deal, If you're holding it back, that education piece, that deal for yourself and not putting yourself out there, you're doing a disservice because that investor’s looking for you.

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WS: No doubt, I appreciate you being real about that and being willing to share everything you've learned from doing it passively and now just being much more ingrained in the business. What about some daily habits that you have, Whitney, that have helped you achieve success?

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WH: My biggest daily habit is me putting my oxygen mask on first, that's kind of what I call it. I mean, we probably all heard that analogy, you get on a plane, I have a nine-year-old, so we're about to get on playing this weekend, the stewardess comes around, she says, make sure you put your mask on first, and then hers. I'm like, so you have to do that.

So, I get up pretty early in the morning and you know, do what I need to do, like I focus on my physical body and my spiritual self, I get out in nature, those are my first things that I do during the day, and when I do that, I can feel like I could handle anything during the day, I'm far more grounded, I can bob and weave whatever is being thrown at me. When I don't do that, when I haven't taken care of my, of course, love first, I don't feel like I could serve others to my fullest capacity, and that includes my family.

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WS: That takes some self-discipline as well, doesn't it?

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WH: It does because, especially all the dings that you get on your phone and then if you're working with investors, the compelling feeling that you have to get back to him and really immediately, but even just taking, maybe it's, maybe it's half-hour or an hour, but just taking that time for yourself, this might sound really weird, but I went for a run yesterday and my headphones, broke and I was like, no podcast, and at first I was vibrating, oh my gosh, I'm not getting my podcast in today, and then I'm like, wait, I'm in nature, and I could just, my brain just could have unwind and started thinking, and by the time I got home, I was like, I had my top five problems solved for life, it was like, yes, let's go. So it's just learning to put yourself first and not, for me, I had to learn that that's the best way that I can actually serve others, is if I put myself first.

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WS: How do you like to give back?

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WH: Well, I love coaching my daughter's soccer team, we do a lot of things here locally. I love educating investors, so I love doing webinars for them, I have a speaking event tonight, so those are the things that I just love doing when I can to serve my family and my community, especially with kids, but also educating the investors about the power of real estate, because really at the end, it's about creating freedom and that freedom for everybody is gonna be different, but when you have that freedom, freedom of time, freedom of choice, freedom to travel or freedom to sit at home on the weekend in the hammock and read your book, whatever that freedom is, it's kind of like putting your oxygen mask on, you're gonna be able to deliver bigger and better things in your world.

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WS: Whitney, I'm grateful to have had you back on the show and you've given a lot to us. I know the investors that are listening today have learned a lot. I'm just grateful even as you're talking through syndication versus mutual fund versus REIT, and then asset classes and how the investors should think about those things, and even the concern of chasing yield and some issues behind that, I think it's been so beneficial. I know they've learned a lot. How can they get in touch with you and learn more about you?

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WH: Yeah, absolutely. Thank you again for the opportunity to be here and talk to everybody. You can find me at passiveinvestingwithWhitney.com. And we talked a little bit earlier about the show it's like, getting into passive investing, it can be a bit overwhelming, so I've got some free resources there for investors a simple checklist, a ten-step checklist to get into your first or next investment. I have a book coming out here, hopefully, by April, that will be free to everybody that goes there, and then you can also find my weekly master class there and get registered for that. But all of that is at passiveinvestingwithWhitney.com.

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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.

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