EPISODE 1273

[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 Travis Watts. Thanks for being on the show, Travis.

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Travis Watts (TW): Thanks so much for having me, Whitney.

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WS: Yeah. I'm excited about this interview and pleased to meet you, Travis. A little about Travis, he's an apartment investor, a passive income advocate, and he's the Director of Investor Relations at Ashcroft Capital.

So, Travis, give us a little more about your background in investing and what you're up to. Then let's dive in.

0:00:51
TW: Sure. Yeah, absolutely. I originally got into real estate investing in 2009 in the single-family space. So, I started doing a little bit of house hacking where I was renting out some spare bedrooms. I got into some fix-and-flips. I did some single-family buy-and-holds and some vacation rentals. It was all in the Colorado market. All my properties were in my own backyard.

The funny thing is I originally set out to be a passive investor and to scale a portfolio of single-family homes, acquiring maybe two or three a year at most overtime to have 50 or 100 one days. That was kind of the big goal at the time. As I got a small handful of portfolios that I was actively managing, I quickly realized that was going to be really tough to scale that model. I was spending a lot of my time managing them where I didn't really anticipate that happening. I was working a full-time job simultaneously. So, I had to kind of take a step back, reevaluate, and say, "How am I going to scale this?"

I tried a couple of property management groups and things but really ended up doubling the workload at that point. I was now managing property managers, in addition to my tenants, and I had all the same problems. They certainly didn't go away. So that's when I learned about syndications and being literally 100% passive with investing. So long story short, I ended up liquidating that portfolio of self-managed properties and going 100% into real estate syndication.

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WS: Nice. It's a similar story to mine. I actually started in 2009. It was small, very small multis, thinking like that was the only way. I didn't know about this big world of syndication at the time. So that's awesome. So, you really got to the point where it's like, "Wait a minute. This is going to be very difficult to scale this, and it's definitely not passive." Even if you had that manager, it wasn't passive you said, right?

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TW: Right. In my case, certainly. Yeah. Somebody recently had just reminded me of this. But the whole world of real estate investing is all self-taught. I mean, you've got to be the go-getter to get out there and get that information. So probably in a similar way, we started with a particular mindset based on one individual or one book or something. Then, yeah, the more you scale out and expand your mind, it's like, "Wow! There's a whole lot more out there I could be doing."

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WS: Yeah. Okay. So, then you decided to liquidate. I mean, that's a pretty big step to say, "Okay. I'm selling all of this and going this other route over here." How did you educate yourself enough to know that that was the correct move?

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TW: That's a good question. So, it didn't happen all at once. It wasn't a knee-jerk reaction by any means. When I had first learned about syndications, I was still a bit skeptical about what was the catch there. But I was so set on not managing tenants any longer and doing all the active roles.

So, I did one syndication. That's how I got started. I just did one. I forget I did the bare minimum investment on it and I said about maybe three to six months, and I just kicked back as I watched it. I watched. I want to make sure. Do I really get monthly reporting? Do I really get monthly distributions? Are they going to do what they say they're going to do? After I kind of saw that unfolds in real-time firsthand, I thought, “That’s absolutely the path I want to take, 100%.”

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WS: So, I think that’s so smart. So, you invested in one, and you said you dissuaded. So, you’re patient, right, like, “Let’s check this out. Let’s test the waters.”

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TW: As much as I wanted to just throw it all in on day one, I knew it was going to take a lot of vetting of teams, getting to know people and building relationships. I was realizing quickly, that you don’t know what you don’t know, and I certainly didn’t want to put all my capital with maybe one group later to find out that wasn’t the best group to invest with.

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WS: So how did you build that relationship to the point you were comfortable investing more and more?

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TW: That’s a great question too. So obviously, that’s a relationship. This all is a relationship business. So, it starts with just understanding this team exists out there. They do these types of deals. They’re in these types of markets. That’s kind of a first step. If that resonates with you, if those are markets that you also believe in, and that’s the type of asset you like to invest in for whatever reason, take it to the next level. Reach out. Get to know the syndicators. If possible, maybe set up a face-to-face meeting.

A big thing I do is attend a lot of networking events, whether that be local or just nationwide. Just to get word-of-mouth referrals to figure out who else is investing with what groups and what their experience has been. That always goes a long way with me, is the gut check of meeting the individual themselves and getting the word-of-mouth referrals not always from the group because, of course, they’re going to give you their best followers.

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WS: Right. So, I guess how did that change though as far as in the beginning? You kind of had to learn how to not just vet that sponsor to some extent initially, and you may not know-how. But you gave it that time. You were patient to test the waters a little bit. But what about vetting the deal and vetting the market also?

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TW: Yeah. That’s a great question too. So just one step at a time quite literally. As I said, it’ll start with, “Okay. I’m taking a look at a deal right now. Personally, I like the B-class assets. I

don’t do a lot of investing in ground-up construction or brand-new luxury, things like that. I also don’t like to go into the C class, D class, rougher neighborhoods, harder to manage, stuff like that. Or maybe a property with no occupancy currently with a big plan to fill the whole thing up. There’s just more risk. I mean, bottom line my risk tolerance isn’t that high.

So, if it’s a B class, if it’s in a good market that’s growing and expanding, that’s diversified with jobs and employment opportunities specific to the workforce, housing tenants, those are the main factors that I look at. In addition, of course, the numbers are obviously important. But I think it’s more about the team and their ability to execute the business plan. I don’t just jump right to the numbers and say, “That deal is 10%. That deal is 7. I’m going to do the 10.” There’s a lot more to it.

I think I kind of started that way, thinking that was the most important factor and finding the highest deal. But in some of those first deals, I quickly realized that they weren’t going to hit those numbers anyway.

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WS: Yeah. It is about the operator, right? It’s all about the team.

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TW: Yeah.

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WS: I think as an LP or a limited partner, I mean, hopefully, the team knows more about the numbers than you do, right?

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TW: Yeah. I would hope so.

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WS: That’s right. So maybe you can elaborate even more on things you were looking at or maybe even how that’s changed to now. Things, tips you can provide now that you wish you had known on that first deal that you invested in.

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TW: Yeah. Great. So, the first two to three deals I did, I was totally deal-focused. I was really reading hard into the pro forma. Like I said, the numbers. This one’s got better numbers than those numbers, so I’m going to go with this one. I wasn’t doing much due diligence on the team. I wasn’t doing much digging on what’s their track record, what’s their history, who’s on

the team, how long they've been there, that kind of stuff. I think that was a huge mistake for me.

Thankfully, the asset class itself I think is just a great asset to be in, and all the deals had actually performed as expected, despite maybe having a team with a lack of experience or a track record. But just things like frequent communication and accuracy of reporting. If they tell you, "We send distributions out on the 15th," realizing that some groups that that's a loose guideline. For others, it's always on the 15th. I just kind of realized that there are teams with a higher competency level.

So, all of my time now, because I consider myself a full-time apartment investor as a limited partner, which is kind of the irony, right? So 100% passive but I'm full-time. But all of my time is spent vetting out operators and groups and getting references and referrals.

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WS: Elaborate again on how you got referrals.

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TW: Yeah. So, I will absolutely ask the sponsors themselves for referrals. That's always a great thing to do. But I won't just solely rely on that, because they're going to, like I said, get two or three of their best investors. Of course, it's always things are great and they're awesome. So, I'm going to take it a step further. A lot of times, that comes out of just meet-up groups locally or nationally, seminars, any type of real estate gathering, or online forums. Maybe hop on to BiggerPockets and search for that syndicator group to see kind of what the perception is out there for other folks.

So, kind of a combination of all of this. It's a gut check with me meeting one-on-one or by phone or by Zoom conference with the group. And then getting their referral list, talking to those folks, and then going out and trying to do my own due diligence that way.

[INTERVIEW 2]

0:09:50
WS: Our guest is Eric Nelson. Eric co-owns an engineering company but he is looking to transition to real estate full-time. Eric has been investing in single-family and small multi-family for years. After learning that partnering is the best way to accelerate, Eric made the shift to multifamily and partnered with the right people. Eric also has a podcast called The Real Estate Mindset.

I still think you can shed a lot of light and help the listeners who are trying to get to that first syndication. Some challenges you have had and let's jump in there.

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Eric Nelson (EN): I would say, probably, the first thing to tell a new potential syndicator is, that it takes a long time to get your first deal, typically. There are some folks out there who may be partnering with someone early on, make some skills, jump into the first deal, and maybe get some GP points. But in my opinion, you really have to be patient and take your time. So that's really the first piece of advice because as Joe kinda lays in his book, you also really need to start raising capital long before you ever think you need to. Because as I'm finding out now, it's a pretty challenging task to get the word out, get the word out, spread the word, "Hey, here's what I'm thinking about doing. Here's what I'm getting into." You get people excited about it long before you ever think you need to.

And then a couple of challenges would be basically patience because I would say on average, I'm just kinda guessing here. From what I'm hearing on my show, maybe a year or so, you start into this path, you're trying to get educated, you're getting some marketing, finding some teammates, getting to no brokers, all the stuff that leads up to the deal. And it just takes time, it takes time to build relationships, it takes time to build your knowledge. So one of the challenges, I say the biggest challenge is just patience like, "Oh my gosh, this is a lot of money and a lot of time leading up to the first thing, will it be worth it?" And I think lots of people just walk away six months and they say, "Oh my gosh, I spent money on a coach, spend money to travel in there getting deals from brokers, but they don't work." I hear a lot of that stuff.

And then along with that patience thing is underwriting it, we underwrote close to 200 deals before we got this first one. And I think that's pretty typical of the market right now, so it's not always gonna be that way, but you'll also find groups that overpay for stuff. And so one other challenge, and one of the things is, don't fudge the numbers, you just can't. So if it doesn't work, move on and get back to the broker and say, "Here's where we are, and here's why." And I'll understand they also love that feedback, so the biggest challenge I'd say is basically patience and really getting educated, really knowing the field, really knowing what you're doing. It takes a long time, so that'd probably be my biggest piece of advice.

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WS: No doubt. That's such great advice. People ask even about just starting a podcast, has it paid off all that stuff, and I say, "You mean, expected, whether to meet up, our YouTube channel, whatever, or thought leadership platform and clients I'm working with or mentoring, it works, but plan to do it a year before you see any results." I hope it happens in four to six months, but I just plan on doing it a year before you see anything from it. And I just go into it with that mindset knowing that.

That's also reminding me of a book that I've heard of, and I have not read this book, but I think it could apply here, I've heard a lot about it, it's called Five Feet From Gold, people stop, they're five feet from the gold. And I just have to be willing to keep going for a year, just in the way you can scale in this business. It's a very short time period of your life considering the impact that it can make. I could have easily quit it a year, and we're really not feeling any success at that point and really killing myself and my family trying to make it happen.

But I was so thankful we didn't quit and so was it your mentor though, Eric, that helped you to really understand that and to move forward quickly and to help keep you motivated? Or to help you to remind you that you need to be patient? Or was it your spouse? How did you stay patient and keep going to get to this first deal?

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EN: Yeah, I think it's a little bit of everything. So I asked you a question on my show, basically, what do you attribute your success to, and I was thinking about that question after that, and mine is basically everyone around me like I'm kind of this pond sort of thing, but I bring it back to my two-year-old, he loves doing puzzles. But they have those inset ones where he'll spend as a tractor and he can match it and he's pretty good at them. But a true puzzle, he wants to try so bad, but he can't do it unless I say this piece goes right here. And he's spinning around, putting on all jazz. That's kind of how I feel my life is. Everyone around me is saying, "Here's this puzzle piece." And then I just have to actually push it in and do a little bit of work.

So it's basically been my wife, mentor, coach, friends, family, kinda pushing me along the way, and it comes similarly to me with the podcast, I think my 25th episode aired, so that's about a half a year 'cause I'm doing it weekly, and a friend of mine called and you finally said, "Hey, your podcast is finally sounding good." So he was like, "Hey, you're getting some traction. You're getting good at this interview thing or whatever." But the point of that story was to say, everyone around me has kind of supported me and I've known it's gonna take some time, and that's why I give that advice. If you can go into it knowing "Okay, this is gonna be an investment." So investment in time, it'll be a sacrifice in many ways with my family. So I just say basically, "my success in being patient is really to create everyone around me."

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WS: Great answer. No doubt. So important to surround yourself personally and professionally in every walk of your life. And what's been the biggest challenge for you in getting to this first deal, anything else that really stood out to you, other than patience. I know you mentioned that, like anything as far as learning the business or raising the money or getting the financing or finding the deal, what were some of those difficulties?

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EN: Yeah, it's funny man, basically, all of those. So every piece they use comes with challenges. So I think raising capital, is similar to what I was describing. People tell you it's difficult. I think for me, what's been challenging is we're in raising capital now, I think I'd be okay to talk about this because the opportunity will likely close before the airs, but you talk to friends, you tell them about it and they say, "Yeah, I'm super interested and I definitely want to invest." And then you send them the basically click now, why, or a money thing, and then they get cold feet. And I don't ever wanna push someone into something that they're not comfortable or super knowledgeable about doing, so I'm always like, "That's what's good for you, the best for you." But you kind of, into the back of your mind, have this punch to the gut basically like, "Oh, that's X number less than I had expected to raise." So that was and still is an ongoing challenge is kind of just saying you shouldn't for someone, they really need to be aware of the risks and all those things. So that was a challenge.

Another one, I think, is broker relations. And I think, you know this business well, your relationship with the brokers is so key, and it takes a long time. I mean, there was a handful of brokers I called, especially in really competitive markets, one guy just hung up on me. He was like, "Hey, take me off your call list" and hung up. It was funny, later I talked to him about it, and he's like, "Oh man, I'm sorry, I got so many spam calls in the last few weeks." But all that to say is it takes a lot of effort and energy to get there. So the challenge would be really getting brokers to take you seriously, really understanding what underwriting looks like too, and that credit back to my coaching. His name's Gene Neilson. So I'll give him a shout-out. But really understanding the ins and outs. If you talk about cap rate, I think a lot of early investors understand that. But cap rate versus exit cap rates and why the exit cap rate is different from your entrance, how do we conserve it? There's just a ton that goes into it that is difficult to learn on your own, and it takes some time.

The challenges of really understanding relationships, raising capital, and branding are huge, really kind of the thought leadership platform like you've got going with, it's a lot of work and they all come with their specific challenge.

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WS: Yeah, no doubt about it. I appreciate you elaborating on numerous things there, even going back to your coach, and I know in a great guy for sure. I've been in a Mastermind with him for a while. But what about now you're at this first deal, you're in the middle of getting to the closing table now, but we've talked about it taking a year to make a lot of this happen or longer. And what would you have done differently now that you know what you know? Looking back, anything that you're like me and if I had done this thing, it would have been so much better or whatever. What would you have done differently?

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EN: Again, the hindsight is 2020, but I really would have gotten the word out as fast as I possibly could. Don't be afraid to post on social media and say, "Hey, if anyone's interested in real estate, reach out to me." And just really talk to your friends and family. There's no reason to be afraid, there's no reason to say, "Hey, I'm not an expert yet, but I'm headed in this direction." So I would probably have put the word out, I guess, sooner than I did because I think raising capital becomes easier, the sooner people know what you're doing. So that's probably a huge key, is just diving in and then you know what I did was basically I spent a lot of time driving quite a bit for my job. I'm an engineer, and I drive around, so I listen to a ton of podcasts. But I would have spent even more time getting educated early. Just read books, and listen to podcasts. As much as you can, get the word but basically be the two pieces of advice. And what's challenging about what I'm saying right now is that they are kind of early on in the process, and so if someone is listening and says "man, I have to do all that stuff so fast, so soon."

The other piece of advice I would give is, "You are what you're supposed to be, so be okay with the process and be okay with probably a few months out, at least, don't have my website up or whatever it is." All those things along the way. It's just part of the journey. So this is kind of a mindset thing too, just to enjoy that journey, it's not like you rushed as fast you can and you're not sleeping to try and get the first deal. It's like it's kind of all part of the process and you get to know people and go to conferences. I really enjoyed the process, and I think it's partly due to just taking some deep breaths and saying there is no true finish line in this business. If you think there is, you're gonna be surprised because I would always have this mindset like "Oh, my website is not ready or my podcast is not ready." And eventually, I was like, "You know what, we'll never be ready" 'cause there's always the next stepping stone, like with you, you're in this fun process, and I can't wait five years from now, hopefully, I'm in that same zone. But I wanna enjoy the process between here and there as well.

[END OF INTERVIEW]

[OUTRO]

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