EPISODE 1335

[INTRODUCTION]

Brandon Cobb (BC): I needed to be able to grow and scale. The sales team was there. We were turning down deals. That's the worst feeling in the world - when you get a really, really good deal and you have to turn it down. So, I needed to figure out who had built the systems and the processes and who was doing it at a bigger scale than me and what are they doing that I'm not doing.

Whitney Sewell (WS): If you're enjoying the show, I hope that you have liked and subscribed. We would be grateful for a five-star and written review on Google as well as iTunes. Please do that for us. We are grateful that you are here and listening to this show. I personally hope that you are learning a lot and your business is growing or you're learning to be a better passive investor. We would love to hear from you. You can always email us at info@lifebridgecapital.com. If you have suggestions or people you would like for us to interview please let us know. We'd love to hear from you.

Well, today, we are coming back with our guests. Brandon Cobb. You heard yesterday how he was fired from that dream position and you heard how he found a mentor and how he took action to make that happen. Then today, we're going to go into their business strategy of raising money. We're going to talk about their specific strategy of how they're insulated against many things. They're expecting a 2008 to happen. They have a strategy around protecting their business and their investors against something like that happening. You're gonna learn a lot today. Have a blessed day.

[INTERVIEW]

Brandon, welcome back to the show. Honored to have you back and be able to continue the conversation because you laid out so many great points in the first interview. I didn't want to cut them off too short. I mean, you were just on a roll with many topics that I knew the listener is gonna learn a lot from. But there were a couple of key things I wanted to be able to get into. So, I appreciate your time.

BC: I appreciate you having me back on. It's an honor.

WS: So, you know, Brandon, we talked about many things, In case the listener didn't listen to the first show with Brandon, I hope you will go back. I hope it was yesterday depending on when the team got these things produced. But you know, Brandon went through talking about how he was fired from a job and how that pushed him in many ways to think differently about his financial future. He went through some key questions about finding a mentor and how to approach that potential mentor, and things you can do to build that relationship. Then how he moved into ultimately building a long-term relationship with that mentor to growing an amazing business and to get to where they're at now. They created a Blue Ocean Strategy and so many great things even going through his hiring process. They spent a ton of time on hiring as we do. I understand the importance of that. He laid out some key things that if you just did what he said, you're going to have more success at hiring. It's so crucially important.

So, Brandon, I wanted to go back and discuss about getting into the syndication business. You were successfully flipping homes, you're successfully wholesaling. You had that business model down. You could find deals but you ran out of money. You knew you got to do something to find more money. What was that process of learning the syndication business? Because that can seem so daunting to some. It's like, well, do I really want to take investors' money? Some people are really scared of doing that. Growing a syndication business where no, we're working with investors instead of just using my own capital. What was that process like for you? And let's talk about growing that side of the business.

BC: You've got to reach a certain level of confidence. If you don't feel confident in yourself, your abilities in the deal, it is not time to use other people's money. We had done so many deals with our own capital, or using hard money, professional lenders, that we're like it's time. We need to be able to bring other people on board. So, it was a decision where we had about $6 million of construction out. And what we'd normally done was we had done these normal promissory notes where if we needed $300,000 to build the home and buy the land, we were going out there and we would raise that money. So, it wasn't syndication style. We're still doing debt positions. We weren't inviting investors on these equity positions. And we realized that in order to grow to the volume that we needed to grow, you know, about $20 million a year new construction, oh my God, it was gonna take a long time to raise an additional $14 million. I was kind of the single dude, one-man band, raising the money for my team. I had an assistant that helped out with a lot of things but that's a pretty big task. I was like, I'm never gonna be able to do this. So again, I went back to "Who Not How". I said, who's doing this at a bigger scale? And how are they doing it? What am I doing wrong? I joined a mastermind. It was strictly focused on raising capital. Most of the people in there were doing multifamily deals. They were not doing single-family new construction. So, I was kind of an odd bird out.

But I noticed that they were raising money and they were able to leverage that money to get construction loans from the bank to do these deals. And I go, wait a minute, you can raise $2 million for a deal and buy $6 million worth of real estate and get a $4 million loan? I was like, that's possible? Which is kind of funny because you think after six, seven years in the business, I would have figured that out, but I hadn't. And I was like, oh my gosh. So I sat down with an SEC attorney, and they explained everything. The guys in the group were able to connect me with a great attorney who was able to deliver and he explained the rules around raising money. Luckily, most of the people I was doing business with I already had a pre-existing relationship with. I had a mild form of success raising some money. Over four years, I probably raised $6 million. And then once we had the system built, and we had the paperwork done, all I had to do was go to my investors and say, hey, good news, I can give you guys higher returns than what I've been giving you. And here's how we're going to do it. I explained the difference. It's going to be an equity position, it's not going to be a debt position. Here's how we can pay you more money, your money is going to go into this entity, and this entity is going to be used to get more money. More money means more profit which means more returns for you. I explained what the risks were too because there are more risks associated with it.

And at the end of the day, they're like, you've been performing and we've been really happy with you. We trust you. And so I was able to take that $4 or $5 million of the $6 million I had to raise and put it into syndication form into these different deals. And things became a whole lot easier, a whole lot easier when we did that. It opened up a lot of new doors and really allowed us to scale because we could do things like charge a small fee to help out with operational expenses that help with cash flow and allowed us to make the higher sooner that we needed. It allowed us to not have any pressure on the business. That's when things really took off - when we learned how to syndicate these deals and add value to investors.

WS: 06:22

Awesome. Wow, okay. So, you joined a mastermind and I've been in numerous masterminds and you know, some have been better than others. However, I would say almost all of them, I've met people who I've stayed friends with or we've learned from even longer down the road. Whether I'm still in that mastermind or not, I built friendships where we still connect or we've done deals together or we help one another in some way. Speak to - was there a specific reason about this mastermind versus outside of just raising money?

BC: That was the subject that I was focused on at that time. I needed to figure out how to do that. Because I had all my own money locked up in the deals. I had $6 million out with investors. I needed to be able to grow and scale. The sales team was there. We were turning down deals. That's the worst feeling in the world - is when you get a really, really good deal and you have to turn it down. So, I needed to figure out who had built the systems and the processes and who was doing it at a bigger scale than me and what are they doing that I'm not doing? And I had found the mastermind through a book "Raising Capital for Real Estate by Hunter Thompson. The mastermind's headed up by Hunter Thompson, great mastermind. Hunter Thompson's a great dude, highly recommend it. But that's how I was introduced to the mastermind, through the books that I was reading.

WS: Yeah, that's awesome. It seems like you were seeking information, right? You've read books. He does have a great book on raising money. I've spoken at that mastermind and I would encourage anybody to look him up and that bookif you're focused on raising money. Definitely lays out some practical steps in there to help you to brand yourself and raise more money. So, I love how you took action, though. You're helping educate yourself, you find this mastermind, you start meeting more people, you found a great attorney, you're asking questions. I mean, you are trying to ensure you're doing this the best you can. What are some of the next steps that really say, grow and raise money. Whether it's the marketing, whether it was just networking, what did you do next?

BC: That mastermind gave us all the backend systems and processes that we needed. I've done a really good job of cultivating the relationships and delivering to the investors. But in order to bring on new capital, you've got to have certain systems and processes in place. So, one of the first things that we did was we looked at all the investors that we had, and we said, who accounts for most of the capital that we've raised? Is there a similarity in them? And we did notice it. Because the biggest piece of advice they gave us was you need a target avatar. Who is it that you serve best at the highest level? And for us, it was busy business owners or highly-paid professionals that have discretionary income that want to reduce their taxable liability, great passive income with a focus on capital preservation. That animal has very specific needs. And so what we did was we started creating content that was curated around solving the specific needs of that target demographic. So what does that look like if you're a busy high-earning professional or a busy entrepreneur and you've got discretionary income, but you've got a tax problem? That's where like the Class B and Class C value-add multifamily depreciation benefits. So we do videos around depreciation and we'd send those out. Hiring systems and processes, right?

You know, we're all entrepreneurs, we all have issues hiring. So, we create videos around that, how to hire for culture, anything that we knew would provide value to that target demographic. And we would put it out on our email list because we had a nice email list that we created over the years back in our wholesaling days. A lot of single-family, house flippers and people searching for rentals, just educating them on the value of passive investment and how to do it. We raised a couple of million dollars from that list. We were sending it out every single day on social media, hitting all the organic channels - YouTube, LinkedIn, Facebook, and then our own network - asking our current vendors, hey, you know, do you know anybody who might be a really really good fit and funneling people to our website. And so the website we have is centered around value. You go to the website, there's a book "Recession-Resistant Passive Income". You can hop on there and it's free. It's HPGcapital.net. It is designed to explain exactly how you can insulate yourself against another crazy 2008-2009. What product types are going to do well? Most importantly, why those product types are going to do well. So, they explained what we did. We had another free eBook "100 Questions Passive Investors Should Be Asking Before Investing". That's the best thing you can do when you're jumping into a new niche. No matter what it is, whether it's investing or you're trying to get into building cars, you want to make sure you're asking the right questions to the people that you're vetting. And so that book added a lot of value and help prevent making a really, really bad investment. What else? There are so many things centered around raising capital. The biggest thing you need to do is add value.

WS:
What about any tech that you've used that has helped you use, like an investor portal, CRM, those things? Or anything that has helped you to streamline this process and be more efficient?

BC: Active Campaign. So, we use a contractor. His name's Jason Wright. He is an Active Campaign specialist. He did a really good job of building out all of our backend systems and processes. So, when you go to the website and you sign up for the ebook, you're gonna get six more emails over the next six days that are the highest viewed YouTube videos that we had. Videos and content that we got the most feedback from and said, wow, thank you, this really helps. So again, all designed to deliver value. If you decide to set a call with us, there's another email that's automatically sent that says, hey, make sure you absorb this information before the call. It's just really important. And a lot of people are like, wow, that was really good. This helped and it helped us have a very efficient first-time call. It was centered around just basically getting to know them and their goals and what they're trying to achieve. Afterward, when we put them in the next stage, they get another thank you email. Usually, it's a handwritten note that we sent out if they put their address. So, the whole thing is completely automated from start to finish, from emails to text message follow-ups so that you're not having to do a lot of this stuff. Active Campaign has has helped a lot with all the backend systems and automation.

WS: No doubt about it. It's incredible. Some type of CRM, right? You gotta document these things especially if you're doing a 506b deal. Brandon, appreciate just the content around that. I wanted to ask you too, even the transparency around the type of content you're creating is great. Is there a platform that you focus on the most, as far as you know, YouTube, or Facebook or LinkedIn or something like that?

BC: They all seem to work really well. Most of the new capital that we raise, honestly, comes from referrals. Just making sure you're taking care of your existing investor base. I've had investors start out with $230,000 and they're up to like two and a half million with us now. You'd never know how much money somebody has or when they're going to come with the money. I've got old buddies from grade school who inherited money and they want to invest. People who have reached out to some of the people who've been investing with us for a while and asked, hey, do you know somebody. So, a lot of it is referral-based. That's the strongest platform I think you can take advantage of. So, building campaigns around asking for referrals, having relationships with your investors. Making sure you're following up with them, at least once a quarter or every six months and asking how things are going.

Make sure that you have an investor experience roadmap. That's what we have because we figured out looking at the numbers, most of the new capital we raise comes from our existing investor base. Probably, 30% to 40% of it, and why is that? It's because we give them a great experience. So, how do we optimize that experience? How do we make them feel like they're a part of the deal? We do video walkthroughs. So, in all of our homes, the PMs are walking them through the stages. We show the permits. We show the passing and the framing, everything. The next steps involved, we put the Gantt chart on all of our updates so they can actually see where we are in the process. We make sure online we put the budgets, how much have we spent versus how much was on the budget. We want them to feel like they're part of that investment. We try to make it fun too. Because at the very end of the day, people want to spend money on things that are fun. So, we try to make it fun too along the entire way. So, I'd say that that's where we focus on most. But all the platforms together, they all add a little bit of leads and that adds up to a pretty good amount of incoming leads.

WS: Awesome. I love that. You've laid out many great things. Even the video walkthroughs. Investors love knowing that, and seeing those things. Oftentimes your investors are in another state or really far away, they can't be there. But I just think it says a lot when you take the time to take pictures at least, but a video is nice as well. They can see what's happening, that there's progress that you know, says, I did invest in an actual deal here, that things are happening. You know, I feel like I know Brandon better because I heard him talking as he's walking through this project or whatever it is. Or maybe I met a team member on the video as well. Incredible. I want to jump into, you mentioned on the last show, and you did before we started recording about everything you are doing right now is with the expectation of another 2008. Maybe you can highlight your business model a little bit more. And I want to jump into what that means. What does that mean and how does that affect your business strategy?

BC: At the end of the day, you want to put as many layers of insulation between you and the market as possible. How do you invest in recession-resistant real estate? Well, it's a subjective term and it's going to change depending on what the market is, right? So, we look for unique opportunities. Right now, we think the unique opportunity is affordable new construction products because there's such a drastic low supply of this product, and there's a huge demand for it. Now, not to be confused with Section 8 or government housing. We're not doing that. We're talking about how can a blue-collar working-class family get into a new construction home. So, the first thing that you got to look at when you have this contraction in the economy is where are the people going to go? The need to live doesn't go away. They still have to have somewhere to live. But what are they doing? They're losing jobs, or their incomes are getting cut, the spouse might have a temp job or have to downgrade into something with not as much money coming in. They cut costs, and your biggest cost for most consumers is their living arrangements. So, we're really gung-ho on product types $385,000 and less. We think there's gonna be a pivot towards that. Again, it's got to be in a good area, that's important. It's one of the areas that we focus on in Nashville is because in the suburban markets in Nashville, you can still get these $385,000 new construction homes and great areas with land and yard and everything that they don't have in these higher-tax states like New York and California. That's one reason we really like Nashville.

Another layer of insulation you can add is what is the growth of the city been like? Nashville has been one of the fastest-growing cities in the United States the past six, seven years. That's another layer of insulation that you get. Cities with fast growth typically don't get affected as much as cities that don't have all those jobs moving there. Another reason we really like Tennessee and Florida is the no state income taxes. Any state that puts more money in the businesses' pockets is going to move their businesses there. That's why you see so many businesses moving from California and New York and these high-tax states to Tennessee. They like that. And they're all coming to Nashville because it's better than the other cities. The local politicians are also incentivizing businesses to move here. They're giving cities further tax cuts and making them more attractive for them to move here. So, you've got all this perfect formula for attracting businesses to the city. Your affordability and growth are the two biggest layers of insulation you can add to whatever recession you're gonna have. Whether it's real estate or the economy or whatever. So from a macro perspective, that's what you're working with.

Now, let's talk about some of the smaller layout layers of insulation. What can you further do to add insulation to your investments? Well, you want to buy deep equity deals. So, we're not focused on 7,000 homes a year with 10% profit margin. We want nice 20%, 25% profit margins after it's all said and done. Most of our loans are underwritten 67% LTV or less. That gives us a nice runway. And then you've got to think of the next risk which is the market risk. How long are you in and out of these deals? So, we do two different deal types. We do land development where we can build multiple homes all at once. You know, track infill projects. And then we've got just straightforward infill projects that are like you're buying onesie, twosie. We typically won't look at it unless we can build at least eight homes there. But what that does for the infill, we're in and out in 10 months, usually. We tell people 12, but that allows us to at least limit our market exposure. And we're not buying the land until we've either got a permit in place, or there's entitlement done. I've heard some crazy stories out in California where they buy stuff and gamble on the entitlement. It's just insane. So, we want to make sure that we limit the risk of buying a bad investment, but making sure that it's good to go before we buy it.

And then self-managing everything. The vertical integration in today's market couldn't come at a better time when things are competitive with costs and builders being super busy. That's why we self-manage everything. We don't want to rely on another builder who could go belly up or bite off more business than he could chew or become disabled and all sudden your whole portfolio is at risk. We don't want that risk. So we're typically in and out 10 months on the infill stuff. For the land development, what I like about it as you have multiple exit strategies. And you've got a hot topic right now called "build to rent" and I call it stupid money. I think there's a lot of stupid money chasing the "build to rent" space. So, we're developing these lots and we've got different exit strategies depending on where we're at. We can either do the development which might take four to eight months tops, and we could sell it off to a bigger builder and get in and out of the deal. Or if that goes well, at the point where we're done with all the roads and infrastructure, we can say, okay, what's the market look like? Do we want to build ourselves? Okay, market looks good, let's do it. So you've got multiple exit strategies. Having that new asset class where you know, we were focused on selling some stuff to some build -to-rent guy, that's great. But what's the worst-case scenario? The consumer, right? So, as long as we build that in and have multiple exit strategies, aren't selling off build-to-rent, selling off the consumers, refinancing ourselves and keeping it as a build-to-rent community and stabilizing it, that's another option. We want as many exit strategies as humanly possible that have all those layers of insulation stacked on top of it.

WS: Incredible. Again, I appreciate you listing all of that out. I think you mentioned in the last interview, also around building smaller homes. I was thinking about that and how that's almost another piece of insulation there. I feel like the prices of homes have gone up so much. Somebody who can't even afford a home that they could have before. I know that happened in Boise. The average home price went up so much. There were so many people who thought, you know what, we're gonna buy a home over the next six months. And all of a sudden prices went up so much. They were like, now we have to rent for at least the foreseeable future because we just can't afford that same home that we could have a few months ago. So even building a smaller home, I can see you attracting great people that see a great home. Maybe it's fewer square feet than they had hoped or thought of. But I think that people are coming back around to that way of thinking. It's like the big home is not as attractive as maybe it was at one time. And they can get an amazing home in their price range as well. So just more exit strategies, it sounds like. Brandon, incredible. So, a few final questions. Other than referrals, what's your best source for meeting new investors right now?

WS: That is a great place to start. I would say most of those guys too, if they've been in the business a long time. If you can build the relationship, so they trust you. They don't feel like it's a gimmick, they're gonna want to be passive once they learn about the syndication business. They're gonna be tired of those tenants and toilets in a big way once you can build the trust. I think it's a great idea. Brandon, what are some of the most important metrics that you track? It can be personal or professional.

BC: Right now, it is budget, budget, budget. Because of the volatility with construction costs, we have everything lined-itemized out. We go over budget on one particular line item like we look at it and we're looking at, you know, how do we cut costs. One of the things that we implemented that really has helped this is getting two warehouses up and running where we can store materials. We're raising additional money on the front end in order to just bulk-buy as much materials as possible. So, we don't run into some crazy cost increase four, five, or six months into the project. But, we're focused on measuring our costs. We're focused on measuring the acquisition side. So how many people do we talk to? And how many deals does that translate into? In the past, it was like 30 phone calls produce 10 appointments and 10 appointments produce one deal. We've gotten a lot smarter by pivoting our approach, reverse engineering our efforts, and really drilling down to the areas that are working really well for us. So, when we measure these conversations, when you do something new, you can see how much of a difference that's making.

I can tell you a story. So what we did was we went to all of the local municipalities around Nashville. Davidson County was just too big. You couldn't get in to meet with planning or the mayor or whatever. It's just too hard. But we went and met with the mayors in all these suburban markets. And we said, hey, where do you want density? And we got a map and they literally looked at it's kind of funny, like, no one's ever done this before. But yeah, here's our vision. Here's what we're trying to do. And they actually circled the areas. We want density here around this corridor. We're looking for this. So we had like the Krabby Patty formula. So, all we did was we just went to those areas and told the sales reps, we're just going to focus on these areas. We door-knock, we do some cold calling. We build relationships with people in the area that we've identified that own hundreds if not 1000s of acres of land and we just focus on those areas. So when we did that, we noticed that our numbers that we were measuring, oh my god, the numbers looked a whole lot better. So, we're talking to five people and getting one deal now.

So, make sure you're measuring your whole acquisition funnel so that when you do something new, you know if it's working. And just like what Mike Michalowicz says in the Pumpkin Plan, if you want to grow a giant pumpkin, identify the strongest pumpkin on that vine, and then sever all those other pumpkins off so all the nutrients flow to that one pumpkin. That's what we did. That really works. So, measuring your numbers and measuring construction are probably the two biggest things we measure among a ton of other smaller stuff.

WS: I really appreciate that recommendation around the Pumpkin Plant reference. I've heard many great things about that book but I've not actually read that book. So Brandon, another great interview. I'm grateful for your time again. And I would encourage the listeners to listen to the first show with Brandon. He goes into many different great things which you've heard me talk about but also how they give back. They're giving away a home to a homeless veteran. I love that and just your desire to help in that way. Brandon, how can the listeners get in touch with you and learn more about you?

BC: Yeah. So, if you're someone who's interested in building a legacy for your family around real estate, and you're not sure where to start or getting started, or maybe you're worried about the next recession, you know, what we do is we invest investors' capital into recession-resistant real estate that's designed to be insulated against market volatility. How we do that is unique. You can go to HBGCapital.net. Download our free ebook, "Recession-Resistant Passive Income". There's another ebook on there that's free, that's phenomenal. If you're just getting started and you're not sure what questions to ask, "100

Questions Passive Investors Should Be Asking Before Investing". Again, you can go click on the Educational Resources tab at HPGCapital.net. Harry Bob Gary capital dot net. Or if you want to talk recession-resistant real estate with me, I've got my calendar on there. Feel free to schedule a call. We'd love to learn more about you and your goals and how we might be able to help.

[END OF INTERVIEW]

[OUTRO]

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