

EPISODE 1364**[INTRODUCTION]**

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]

WS: Our guest is Scott Reib. Thanks for being on the show, Scott.

Scott Reib (SR): Thanks for having me, Whitney.

WS: It's a pleasure to have you on the show. We cannot have enough legal advice, that's for sure. I'm looking forward to getting into this. Scott is known as America's legal coach. He's the official Zig Ziglar small business lawyer, a Legacy certified trainer and he has over twenty years of experience as an attorney. Scott has been helping business owners, entrepreneurs, coaches, and service providers to shatterproof their businesses and succeeds in the professional world. He's a firm believer that seeking legal advice doesn't have to be intimidating or expensive if we treat lawyers like primary care doctors instead of ER doctors. Through his subscription-based access plan at legal service, Scott is making great strides in shifting that perspective. Scott, thank you again for your time and expertise in sharing with our audience. Give them a little more about just who you are, maybe where you're located and what your focus is right now.

SR: I'm located in Denton, Texas. We're 35 miles north up I-35 from Dallas. I've lived in that town for about twenty years. I've been married 28 years to my beautiful wife. We have two boys: Jake who's twenty and Luke is seventeen. They keep me busy. I also double as a varsity soccer coach for my seventeen-year-old school. I stay busy, but my primary focus other than family is to help entrepreneurs especially investors put deals together and make sure that they're shatterproof.

WS: I'd love to dig into that. Help us to think about how to structure our business so it's shatterproof or maybe some common things. People were coming to you often like the ER doctor and we don't want to do that. We don't want to be in those shoes. Help us to think

differently even about our relationship with an attorney like yourself and the doctor we're going to on regular visits as opposed to when it's too late most likely.

SR: In my book, *5 Proven Strategies To Shatterproof Your Business*, the first strategy is that you need to assemble what I call a team of key advisers. People could argue with me and come up with a couple more, but there are four you need to have. The first one is you need to have an accountant. I prefer a CPA, but there are some good accountants that aren't CPAs that understand your business. They understand doing real estate syndication deals, the structure, the taxation, the cash flow, and all of that so that they can help you be successful. They can help you set up your books, they can set up the accounting software and they can teach you to use it. These are things that most people don't know how to do when they start an investing company or career or if they're shifting out of a 9 to 5 business or work job or W2 jobs and now this is totally new. If you had that one key adviser, you can make a big difference.

WS: What are some of the uncommon problems that we need to be aware of that we're not going to be shatterproof?

SR: The second strategy would be the structure. You need to make sure you have the right legal entity in place. We're talking about syndication, we're talking about limited liability companies, limited partnerships and now what's popular would be the Series LLC. You can use any of those entities. They will all work. You need to understand them so you need someone that can teach you what they are, how they work, and what the advantages and disadvantages of those different entities would be for your particular investment or business. Then you need to have it set up right. In this world where we can go online and find all these different portals, you can do your own legal documents, which is great but there is some danger there because you may not know how to answer the questions they're asking you to fill out these online forms. If you answer it incorrectly or just different than they expect, you may get something in the form that shouldn't be there. You should have that relationship.

You should get those done by someone that knows what they're doing because there are some steps you need to follow to have a real legitimate entity. The purpose of it is to have separation from our personal lives, from our business or investment life. We don't want anything at work or investments to come home and hurt us. By setting up the right entity the right way, then we ensure that doesn't happen. If you skip some steps, you could leave yourself exposed so it's important to make sure that you do that right. You need to follow this certificate formation and it needs to have the right language in it. Then you need to have an operating or company agreement for your LLC. You need to ratify that by either having a meeting with yourself or the other investors or doing a unanimous written consent to that so that there's proof that you did form this LLC. You should do annual minutes of what happened with your company over that year and approve everything that was done by the members. It's not required by most states,

but it goes a long way if you end up in court and someone is trying to pierce your corporate veil and go after your personal assets.

WS: You mentioned the team of key advisors, the structure and there's more.

SR: The third one would be to document everything. If you're in real estate, you cannot do a real estate deal on a handshake. It's not enforceable. The statute of fraud says which deals have to be in writing. In the real estate deal, you have to be in writing to be enforceable. You can't lock down a piece of land by shaking the farmer's hand. You've got to have a written agreement. That's another place where a legal adviser comes into play. If you're business-savvy, you can put together an enforceable agreement to lock someone in fairly simply. That's not that hard. There are a few things. You want to make sure that you've got all the dates in it when you want it to perform, you have all the money right in it, and you have the property description correct in a real estate contract. There are some things that you can do to lock it down. That's where I see people not doing any of this. They'll meet with someone, they may shake hands and they think they've got a deal. They don't take that extra step fast enough to lock that into a contract before they start trying to ground up investors and then someone else comes in with a better offer and you've lost a deal.

WS: There were five things. Is that correct?

SR: There are five things. The fourth one would be to make sure that you protect your intellectual property. If you're creating a brand like you've created for yourself with Life Bridge, then you want to trademark that name. You have an automatic trademark. It's called a common law trademark when you use something to stand for your business and consider your mark. That is yours and you could stop someone else from using it. Without a registry in it, you couldn't recruit damages. Let's say people started investing with them because they thought it was you and they made a bunch of money off that. That's the money you should've made because that was the brand that was built. If you register it, you can recoup that plus the attorney's fees. The other thing that you want to make sure you're doing is if you're creating content like your podcast, you want to make sure that you're copywriting those. You want to use copyright notices on your videos and you want to use them on your websites. If you have something that you need, maybe you created a real estate course or some video course, then you want to register that with the copyright office. It's \$75 to register it with the copyright office, to have that nailed down, "This is mine. You can't take my content and reuse it without paying me." That's the fourth step. Make sure you're protecting your intellectual property.

The fifth strategy is also about intellectual property, but it's the flip side. Don't use someone else's. A lot of entrepreneurs are throwing up websites for their new companies. They've had the Gerber entrepreneurial seizure, so they go online. There are some easy ways to create

websites really fast. You don't have to have any talent anymore to do a quick website. Where do you get images? You go to Google and they're all over the place. They must be free. They're on Google. They're not. Most of those have copyrights on them and aren't royalty-free. What happens is you put them up on your website and then there are people that have software that's trolling the web looking for their client's copyrighted images. They can identify them and then they'll send you a demand letter and you're on the hook for some big statutory penalties. There's no oops defense. It doesn't matter that you didn't know. You're going to pay them. It's just a matter of how little you can get by with. Sometimes you can negotiate that down but if not, they're going to sue you in federal court and you're going to lose.

Even if your webmaster uses the images that aren't right, you're still going to be on the hook for it and they won't. You want to make sure that anyone's intellectual property that you're using, you have the permission to use it. You want to make sure when you do brand name in your investment company or if you're selling real estate, your real estate sales company, that is something that someone else hasn't already used. You wouldn't want to build your brand on someone else's and find out years later that you've infringed on their mark and then have to start all over and possibly pay them some damages.

[INTERVIEW 2]

WS: Our guest is Ben Risser. Thanks for being on the show, Ben.

Ben Risser (BR): Thank you for having me. I'm glad to be here.

WS: Can you describe a potential bottleneck that has happened, or happened recently, or just something that the listener can also expect to come as well as they grow? What's a bottleneck that you all have had and had to work through?

BR: Cash management. When you're managing a single property, the number of transactions that have to be taken care of. We use QuickBooks online right now and just making sure that your team members are getting paid when they're expecting to get paid and investors get paid when they're expecting to get paid and all the vendors and lenders and complying with loan covenants and things like that. All that has to do with having a system in place where money flows freely and on time. At a certain scale, you can't do it all yourself and we're in the process of onboarding a vendor who's going to basically take the cash management and financial reporting aspects off of my plate and I'm very eager for that.

WS: I bet. So, you've been using QuickBooks and you've been doing that yourself up to this point?

BR: Yes. I've tried to use some online tools to do electronic payments, but seemingly, there are a lot of challenges that happen when you have partnership company structures and you have companies paying companies that have interest in each other. A lot of these software companies have hard stops on those types of transactions because that's considered self-funding, but that's the way a partnership works. One entity pays the partners.

I don't understand why the industry hasn't adjusted to support partnerships, but that's been one challenge of streamlining those transactions is finding a way to have our entity structure, have the money flow through it, and do it electronically, so I don't have to write checks and lick stamps and envelopes.

WS: Yeah. It's nice to hear you talk about that though, and just the frustration, this bottleneck of this cash management, and how you all are moving forward in that and going to improve. You've got to jump over that hurdle to hire this new person, find them and train them, and make sure all that's functioning and that process and system is working accurately. Once you do that, then all of a sudden, you're going to have probably a better system, a more accurate system, and more time for you to focus on other things.

BR: Oh, absolutely. The cash management and bookkeeping and all that is not my highest and best use. We've gotten to the point now where it's time to find somebody who is gifted in that and specializes in that. That's what we've done and we're excited to move forward there.

WS: Nice. Are there any other bottlenecks that you can share?

BR: Yeah. When you get to a certain number of assets on the construction management side, I would say, it can be challenging to handle things in Excel. Because one of the challenges is when you're dealing with a bajillion invoices a month, how do you know that every invoice is valid? How do you know that you didn't already get billed for those sets of appliances? Having a system in place that can catch those types of things does impact your bottom line, because why buy two sets of appliances for the same unit when you should have only bought one? If that happens too many times, or if a vendor either maliciously or not maliciously bills you twice for labor and materials, that will impact your CapEx budget and ultimately, you won't be able to achieve all the value-add that you underwrote to achieve.

So I built a monstrous Excel tool that catches all that. Turned out, that I was the only person that could use it. That's really not scalable, because I'm the single point failure there. We're going through the challenge of trying to procure a software tool that works for the team. It can't just work for me. It has to work for the team, the people doing the work. We're in that process and just being able to handle all the paperwork and then the lender requirements, withdrawals,

and keeping track of all the dollars and the integrity of the invoicing and the bills we're paying. That's definitely something that will show up once you reach a certain scale.

WS: Yeah. It's hard to when you're at that scale, there are so many invoices, right? There are so many things happening. It's hard for you to track, "Well, did I pay for this already or not?" Even a vendor, they're invoicing so many people as well. It could be a legitimate mistake that they invoice twice. Then if you're trying to stay on top of paying those bills and you pay them before you realize that you already paid them, right?

BR: Yeah. Then once the money is out the door, good luck getting it back, because they've already spent it.

WS: Right. Yeah, it's been spent for a long time. Let's dive into maybe another scalable system or process that you've had to implement as you all have scaled. There are numerous people listening to I know that have maybe they've got their first deal or two deals and they're getting to that 2 or 300 units, maybe up to their 4 to 500 units or more and they're looking to create these scalable systems and processes as well. What's another system or process that has helped you all, or that you all have implemented because of the growth?

BR: Well, there are two areas. On the asset management side, there's having a system and process in place where you are able to collect the key performance indicators of each of the assets and measures that do basically a pro forma to actuals analysis so that you have your finger on the pulse of what's going on. If you're trying to do all that in Excel, what you end up with is a double-entry going on between Excel and your bookkeeping system. We were living with the pain of double entry for a while. We're pushing very hard to get into a system where it's only a single entry.

So all the financials and all that, it's all in the same tool that you're entering the data once and that you've got your pro forma in that tool and you've got your actuals in that tool and the tool generates the analysis that you're looking for and you don't have to enter that stuff into your accounting system. Then also enter it into a spreadsheet, or download it from your accounting system into a spreadsheet and then do all this data processing, which opens you up for the error. Unless you're a boy genius computer engineer and you can write macros that do everything for you, a lot of this is a little bit manual in Excel.

We're trying the best we can to get out of Excel tools, though you have to be careful that you don't get out of an Excel tool into a tool that's more complicated than Excel and it's taking up more of your team's time than it was in Excel. Procuring tools is critical, I think too long-term success. It's critical for your team members not killing you, or quit.

I would say having a solid system in place to do pro forma to actuals, prior to acquiring your first asset is good. Don't just focus on the tool that allows you to get into the asset. Before you get in the asset, think about what tool am I going to use to do the budget actuals and actually do a proof of concept before you throw yourself into that.

[END OF INTERVIEW]

[OUTRO]

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