EPISODE 1373

[INTRODUCTION]

Adam Benton (AB): Getting the partnership structure in place at the beginning, having good alignment as to how you plan to grow and how much time you plan to commit goes a long way. As you know, businesses do one of three things. They either do “really well”, they just kind of “go flat”, or they do “really poorly”. And then, in those “really well” and “really poorly” scenarios, you wanna make sure you have a clear understanding as to how your partnership is going to work.

Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. And today, our guests, they moved from zero, no money, it's not all of a sudden but over a decade but now they have 2500 employees, over 4000 units or beds as they call it in senior living, that's their asset class in 10 states. And we're gonna go in a little deeper with this guest. We're going to do a couple of shows with him and we're going to talk about how they did that. I feel like it doesn't matter what asset class you're in, you're gonna learn a lot from our guests today, Adam Denton.

Adam is the Senior Vice President of Stellarr Senor Living. He was recognized nationally by Argentum (the leading industry association) with a “40 Under 40” award for leadership. He served for three years on the Utah Alzheimer’s Association board to advocate for seniors with dementia, raise awareness of the disease, and fund research.
But he and his family, his father, and brother-in-law, they started this ten years ago. You're going to hear about their growth today. And then in another show, we're going to follow up and hear more details about how they raised money for different assets as they grew. They've grown a lot but it didn't start that way. In the beginning, you're gonna hear about different systems processes that they started with, and the ones that they use today. And then in another show, we're gonna get into them raising money and growing their business, and then what they expect the future to look like for their business and just our market in general.

[INTERVIEW]

WS: Adam, a pleasure to meet you. Honored to have you on the show. Just talking to you before we got started, I mean, you started a business a decade ago, and there are so many things that we're gonna learn from you today, I have no doubt there are many lessons that have to be learned in starting a business and keeping it going that long and scaling and growing in your specific niche as well. I want to learn more about that. Tell the listeners a little bit about who you are and so we can dive in.

AB: Yeah, you bet. Whitney, thank you for having me on your show. Yeah. So I'm Adam Benton. I'm in senior housing. About a decade ago, I started this business with my brother and my dad, actually, the three of us and we started with no money. We basically started looking around trying to buy senior housing assets. I found four after cold calling for about a summer and at that point, they were in a few different states. We then reached out to a real estate investment trust (REIT). A REIT that agreed to basically purchase those and lease them back to us. So, our first assets, we actually purchased through a REIT. And then we leased them back. And then to make sure that we had enough money, we actually negotiated to have that payment, the lease payment, in arrears so at the end of the month. So, it actually created a little bit of a float right at the beginning and that's just how we started. Over the last ten years, we've continued to grow in senior housing. We're based out of Salt Lake City. With these first four, we're now at 30 locations in 10 different states. We have about 2500 employees, and about 4000 beds related to independent living, assisted living, memory care, and skilled nursing. So, I've just been living, breathing drinking senior housing for the last ten years. And I've learned a lot in the process of scaling a business from zero to where we're at today, as well as just some of the benefits of being in this portion of the industry.

WS: Ten states, is that right? You said you're in 10 different states, 2500 employees, 4000 beds, that's no small feat. You definitely weren't napping too much. I mean, it's so impressive. I appreciate you sharing the color a little bit. And this is where we've grown because it's very impressive. I know there are lessons there that and it doesn't matter what asset class we're in, that we can learn a lot from your growth. I wanted to back up a little bit, you know, you started a decade ago with your father, your brother and with no money, right? I love stories like that because you made it happen, put the time in, the work in and you started cold calling. You mentioned that you connected with a REIT and they made the first purchases for you or you connected with them. Can you share a little bit about how that worked? Or what that looked like? Why did they consider working with you with no experience?

AB: Sure. So, we did have experience in the space; I should say that. And so we had experience before. I think coming just cold and with no experience and saying let's buy $40,000, $40 million worth of real estate is a tough ask. But the REITs have a few things that they want to get accomplished. One is, I mean, their goal is to continue to buy a diversified set of assets. And then those assets have to cash flow, be able to create earnings for their investors. Now REITs can be private or public. In our case, it's a public REIT and so those earnings get distributed through dividends. They want quality assets and then they want quality operator. So, what we said is, look, we found these assets so we actually were in control of that. And that's an important piece is that we did roll up our sleeves to actually find assets in which we control the purchase process. So,if they wanted those assets, they had to work with us. That's something that you've always got to remember in real estate. I think it's a key piece, there's usually some sort of puzzle piece that helps you control the deal whether it's owning the land, saying that you're gonna guarantee it, or in this case, finding something that you've actually locked up in a contract that allows you to get an outsized negotiating presence.

And so, we found those first four assets, the REIT wanted to buy those, and then we just negotiated an agreement in which we lease it. They still had that confidence in our ability to then continue to operate those, but it wasn't easy. And when I say we started from scratch, like we had no policies or procedures or anything, and so when somebody would call and ask for, hey, what does that form look like? Great, give me like 30 minutes, you know, I'll go make the form, send it out, does that look right? Those are the kinds of things that we really had to hustle that and you're just working a ton. But over time, what's difficult gets easier. And as you continue to grow the platform, you can bring on more team members to help you out. I don't know if that answers your question. But partnering with a REIT at the start was a very good way to start. We now have those 30 assets, we have various partnerships in different structures. The lease structure, like at the beginning, we have some that we own outright through the cash flow around business. We have some in which we just do joint ventures where we might be the GP and then we have LPs, and we have a promote. And then lastly, we have just third-party management, stuff where somebody else owns it, they're looking for an operator, and we've gotten good enough in which we can step in and operate for a fee. That's how it looks like today.

WS: Yeah, no, that's incredible. I appreciate you sharing that because I know a lot of people wondering, well, would that be beneficial for me to start or to using a REIT? Should I reach out to a REIT? And maybe you can talk about that? How did you reach out to a REIT? How did you all even think through oh, is this a good option for us? So, the listener can be thinking, should they try to do the same thing as they're getting started, or maybe as they're trying to scale to a larger asset or something like that.

AB: So, REITs are a great way to go, especially if you're starting for a couple of reasons. If you think about it, there are a few different types of REITs. And there are REITs in every asset class within real estate. Now, a REIT technically can't operate their own real estate so they're always looking for a partner to operate for them. They are mainly a holder of the property portion of the business. And then they have some rules and regulations around distributing the majority of the income from earnings to investors. So, public REITs, there's many of those, that's a little bit more difficult to get into. But there are also private REITs that are all over the place that are looking for people that are willing to roll up their sleeves and do a good job. And that can be in any space that you're interested in investing within real estate. When you think about a REIT, the cleanest structure that REITs typically like to do, they'd like to purchase an asset, a hundred percent of it, and then lease it back to you. In our case, let's say we bought something for $10 million, the easy math would just be to think that the lease rate is going to be maybe 6% to 8% of that per year. So $600,000 to $800,000, in which you have to pay to the REIT in a lease format. So, as long as your in real estate, you're competent, it can basically cover that amount plus some, then you have a good investment. And then those lease terms typically go for 5, 10, 15, 25. In our case, it was 15 years initial with two 10-year extensions. So, it's a 35-year lease. So, I'll be in my late 60s by the time those first four leases expire. In our instance, we bought something that actually had a little bit of turnaround requirement. So, a little bit lower occupancy, maybe had some deferred maintenance and we could come in with carpet paint, lighting, maybe change the wing. But, the end result is that we're able to create higher performance than where our lease rate was at and then that created just a gap in cash flow which allowed us to then start reinvesting. So, that's the benefit of a REIT, you get some of the advantages of real estate ownership. You don't get all of them but you do get many of them related to that start. Biggest key is that many times you can come in with either just a small deposit or not even the deposit, just signing a guarantee on that lease. Did I answer the question? I hope.

WS: You did.

AB: I know it's a big world there on that.

WS: That's awesome, Adam. I get a lot of questions about groups that are wanting to or thinking about partnering with a REIT and don't know if that's something they should do or not. So, I know that helps add a little color to maybe some things they should consider. You talked about negotiating to have control in the deal and some things they should consider, like even the long leases, that process, you said you'll be in your 60s before those leases are up. That's something to consider. I mean, you don't look that old to me so that seems like a long time.

AB: It's a commitment.

WS: That is a commitment. No doubt. Speak to the partnership, too, with your father, your brother, how the team started to grow in the beginning. What did that look like as you all started to scale and purchase new deals and started to build out a team?

AB: Yeah. So I mean, in every partnership, if you don't do it, I'd highly recommend an operating agreement. I mean, that's an obvious step but I've been amazed at how many times people skip that step. That's basically like a prenuptial before you get married in business. And it just helps you set the terms. So, even though I was working with my dad and my brother-in-law, we created a pretty clear operating agreement. So, that outlines things like voting rights on big and small decisions, as well as how much time you expect to work in the business or what happens if you have losses. Those kinds of contracts can go a long way in setting you up for success. That also helps you get in agreement as to what are your goals as a partnership. So, in our case, our goal was to continue to grow to be where we're at today. If you looked at our business plan, which I put together, it's a really simple spreadsheet. We just thought, hey, if you just add two to four properties a year in ten years, you'll be at 30 properties. And that's literally what happened. And today, we're 30. So, we average three properties a year. You hear a lot, it takes a decade to become an overnight success. So, we're still got a long way to go. But it's literally been a decade. So, in that process, when we first started, we just found a Regus office center, and there were just a few of us and we were still trying to complete this first deal. There's just three of us in there, we worked pretty hard to get that done. So, getting the partnership structure in place at the beginning, having good alignment as to how you plan to grow and how much time you plan to commit goes a long way. As you know, businesses do one of three things. They either do “really well”, they just kind of “go flat”, or they do “really poorly”. And then, in those “really well” and “really poorly” scenarios, you wanna make sure you have a clear understanding as to how your partnership is going to work.

WS: I'm glad that you mentioned that because it seems odd. Well, wait a minute, this is your family? Do you really need something like that? I can just hear those questions often right? Or why? Why you may not do that type of thing? Well, it's our family. I trust my father or my brother-in-law, right? But, I would often say that's even more of a reason that stuff is written out. It's important, and it's some hard decisions maybe, in the beginning. Has that changed, though? Maybe you all thought, this should be in the operating agreement in the beginning or maybe your brother-in-law is going to be doing these things or in-charge of these things or your father. But then you all figured out, let's say, a year, two years in, that, hey, I'm really better at this thing over here or passionate about this other part of the business? Did that change at all?

AB: Yeah, absolutely. And as you can imagine, as the business grows, the hats that you wear change that you do have to have some level of flexibility. It's very difficult to anticipate exactly what opportunities will come your way and how that will look. But you still can say, hey, we want to devote at least 95% of our time towards full-time work within this specific business. Now, what you actually do can change over time. So, at the very beginning, I was very much focused on operating, and so lots of employees in our business, just learning the ropes, setting things up, systems. But over time, I've now shifted more into a chief investment officer role. So, that's looking for and buying existing assets, divesting of assets as needed, refinancing, all of those types of needs start becoming bigger as you grow. And so you tend to hire other people to help out and probably do better than you, quite frankly, at certain roles. So, it has definitely changed over time. Sometimes, our strategy has changed a little bit. As I mentioned, at the beginning, our strategy was leases. And then we started moving more and more toward joint ventures. And at year nine, we did our first friends and family raise. So, we kind of went a little bit backwards in that sense. But, we have changed how we structure those partnerships and still is as we move forward.

WS: Nice. I appreciate the color on how your position has changed.Speak to some of the systems though, in the very beginning, that have helped you all to scale like this. Maybe the newer operator and maybe even the experienced operator that's listening, we always wonder, how can I improve the system? I always tell my team, we got to document the system so we can continue to improve it. It's never something that's finished, I feel like, in any system. What were some of the early systems that helped you all to get to where you're at now?

AB: Sure. Yeah, thanks for asking. If you looked at our early set of systems, we have ripped out almost every one of those and had to redo them over time. So, what we use today is very different than what we used at the beginning. One thing that I've learned is that, we would first just do a Google search. You look up all the systems that are in that space. Demo way more than you think you should. That's step one. And then you go talk to somebody who uses every one of those systems. And you'll find people that say, I switched from one system to another, and you'll get the real feedback. And then when you actually roll it out, you find that you might get 50% of what the demo actually showed you in terms of bells and whistles that actually get the job done. Some of the systems that are core, today, we use Yardi. Yardi is a very common multifamily product that have a senior housing component to it. Before that, we used MRI which is also an apartment building. And then before that, we use a system called RightClick, which was bought by a group called Matrix Care. That's your core financial system.

We also have a payroll system, we have a medical record system, we have a system just related to spending. So, we have a CRM, one of the systems that I think that I love today that we use that we bought last year related to friends and family was just one of these syndication systems. So, we use Juniper Square, and it is awesome. I don't know how people would raise from 50 investors 15 years ago, I have no idea how they do that. So, something like that where there's just an off-the-shelf solution that would do way better than you could do and make you look way more professional and keep you way more organized has just gone a long way to take a small team to accomplish a fair amount in a system. So we use tons of systems and we typically look to invest and try out systems. We're not afraid to do that. We'll try something out. If it doesn't work, we'll rip it out. So, we have a couple of things just related to our industry. That's like a CoStar type of thing where you're just analyzing markets and finding stuff that looks expensive on the upfront. It might be $15,000 or $20,000 a year which is an eye-popping amount of money for a system that just helps you analyze stuff. But it will pay for itself in a pretty good ROI if you're using it properly. So, systems is something we believe in - people, product, process. That product, process, pieces systems, I can't talk enough about systems.

WS: Yeah, that's awesome. What CRM do you use?

AB: Well, we have a couple. We started out using, it was actually Zoho. You can get a CRM Zoho for free. We currently use a senior-housing-specific CRM called WelcomeHome.

WS: Now, that's awesome. It is one of those things like there's so many to choose from. The biggest, or the most important thing is that if you have one, you use it.

AB: You use it.

WS: That's right. Gotta use it. And so, I appreciate the other things too, like you already use Yardi, Juniper Square. I've heard good things about them. We use InvestNext, similar product, which we can't recommend enough either. But yeah, I don't know how people did it years ago either. I mean, I cannot imagine the mailing the documents back and forth, and oh, my goodness, you know, but something like that is just crucial, and you hit the nail on the head. I think too, it just gives you a professional presence. Your investors have a portal, they can log in, just gives them the security, the feel of security anyway. You know, just the ease of the process of completing documents and all those things. Thinking about your scaling, thinking about to where you're at now, tell us about some of the bigger hurdles that you all had to get through, to go from that first deal or so, and you're looking at working with a REIT to 2500 employees; that's significant. I mean, it's a lot of people that you're employing, that you're caring for, that you're ensuring they have a great job to come to every day, and culture that you're creating, and all those things. And so massive growth, personal growth for you, no doubt to make that happen. Speak to some of the hurdles that it took to go from zero, no money, to 2500 employees, 4000 beds. If you go back and say, okay, these three things happened, what would those be?

AB: Sure. So, I think the first thing is that it seems daunting today to say, hey, you have to set up all these systems and be able to pay people and pay vendors and all that. It's a little bit easier than you think for a lot of reasons. One is, it's day by day. You don't have to ever think perfect every day. Something that I probably remember right off the bat is that there's a lot of things, especially when you're smaller, you can just do by hand, that isn't a big deal until you get to a certain size, and then it becomes a big enough friction that it's going to cost you a lot of money and time. And that you've probably got to think about systems and people to put around that process. I think the very first thing that I didn't fully appreciate at the beginning is just those very first couple of deals is pretty critical to get correct. And so spending an extra level of time and effort into finding the right deal sourcing it, underwriting it, and just making sure it's fully correct. That goes a long way.

Now, one thing that I didn't fully appreciate at the beginning, was that even though you might say, well, I don't know exactly, I'm just starting out, how would I know what the best deal looks like? There are a lot of other people that are interested in making sure that these deals succeed. If you end up getting debt on it in any way, a bank is going to go through and do a similar analysis to make sure that your numbers make sense, right? You can also lean on other people that you know in the industry to just say, hey, can you just review this? If you end up not actually doing your own management and you hire out a manager like when you buy a multifamily property and you hire manager, they can go through and do their own analysis on that deal. Getting the deal right at the very beginning is very important. But you can also lean on people around you that can just help verify your business plan. I would heavily do that. They're invested in making sure that it's successful as well. And that will save you a lot of headaches and get you onto a good footing. You can make mistakes later. Just don't make them at the beginning. That's what I would recommend.

WS: Yeah, no doubt. Did you all have a mentor? Did you all hire a mentor? Who was that for you all? You know, no, maybe not them specifically. But how did you find that person and how did they speak into you to help ensure those first few are correct or we're good?

AB: Sure. So, like I said, we had some experience in space. I went to undergrad for finance. I then went and worked on Wall Street for about five years. I did a master's in finance. I had a lot of educational experience related that had an emphasis on real estate. But my father had a lot of experience in this space, specifically in real estate. So, he was tremendously helpful in helping you avoid some of those landmines. And that point, I've been pretty lucky. So, we started when I was 30, I'm now 40. But I've seen many people who find a mentor either in a partner or somebody else who's doing a similar business. It has a similar effect. I think the main key though, is having a mentor can go a long way in helping save you a lot of headaches and trouble. Just to give you an example, even though I did an undergrad and a master's and worked in finance, when we went out to raise friends and family money, I knew almost zero about that. So, what do I do?

I just went on to Amazon and I bought three books related to raising money, and I read them all. That was a year ago. Even though you think you've just been at this a long time, you can always learn more and it won't cost you the cost of $150,000 or $200,000 MBA or even an undergrad. The information is out there. So, podcasts like yours just go a long way injust helping understand what's out there and how to avoid things and how to learn stuff. And then you can always just grab a couple of books. I've also done a couple of specific real estate investment online courses that have taught me way more than anything I ever learned in my undergrad or masters. So, I can't emphasize education enough and it's cheaper than you think as long as you put in the time, and then just finding a mentor or two that are willing to help. People are always willing to help with starting a business or even partner with you on it. Those are my thoughts around mentorship and partnering.

WS: You mentioned online courses, I don't hear that too often. Is there one that you can recommend?

AB: Yeah, the one that I like is called Adventures in real estate. It's called "Adventures in Commercial Real Estate', "Adventures in CRE". If you look that one up, I think it's a completely reasonable course. It is a boot camp related to actually doing underwriting and then the models that they have on their website, we still use many of those today to help in our business with waterfall structures or structures related to just understanding debt. They have it for every real estate asset class. That's been very helpful in saving time, and just getting smart really quickly in the real estate space.

WS: That's awesome. I appreciate you sharing that. I know a lot of listeners wonder, how people educated themselves early on. And so, that's so helpful. I want the listeners to know right now as well that Adam and I are going to do a series of shows. We're gonna do another show, at least one more, maybe two. But we're gonna go into some of those ways that they raise money in the beginning to how they're raising money now through different assets and how that grew. And his opinion on what the future looks like in their asset class and just in real estate in general. I love asking that and talking especially to guys like him who have been in the business for a number of years now, and are watching these things closely. No doubt, they're tracking these things. I mean, you got 2,500 employees, 4,000 beds, you need to know what's happening in the market. You need to be able to predict things. So, I'm looking forward to that discussion myself as well.

Adam, we're gonna end this segment here. But, I want the listeners to know, we're gonna follow up with Adam, and we're gonna learn a lot from him over the next day or so.

AB: Thanks, Whitney. Thanks for your time today, and I look forward to more discussions.

WS: Adam, why don't you go ahead and tell the listeners where they can find you?

AB: So, you can find me on LinkedIn, Adam Benton. Our company is called Stellar Senior Living. I'm happy to connect and then our website is StellarLiving.com. And we do have an investor portal. If you just fill in the information and send it, I'm happy to set up a call and just talk a little bit more individually.

[END OF INTERVIEW]

[OUTRO]

WS: 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, go to LifeBridgeCapital.com where you can sign up and start investing in real estate today. Have a blessed day.

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