EPISODE 1389

[INTRODUCTION]

Levi Allen (LA): That's the thing you just have to go out with the brokers, go on the tours, get to know them better, let them know that you can perform.

Whitney Sewell (WS): This is your daily real estate syndication show. Thank you for being with us again today. I hope you have liked and subscribed to the show and you're gonna learn a lot. Your business is going to grow and you're gonna grow personally, because of the conversations that we have on the show and the things we are learning from so many individuals as we dive deep into their business, and how they got there.

From cattle farming to syndicating large, commercial real estate. Our guest today has done just that. Amazing background, I just think working on a farm teaches you many things that we take for granted if you grew up that way. One thing is just work ethic if nothing else, but he got to operate his own business even at a young age, and you're gonna get to hear a little bit about that and how that helped him. But he didn't stop there. He's making it happen in real estate. Now, his name is Levi Allen. He's a principal of Wealth Creation Asset Management, a real estate investment company that acquires residential multifamily properties. He studied business at BYU Idaho after returning home from a two year church permission in Peru in 2015. He acquired his first property in 2012, and immediately developed a passion for real estate. Here, we're gonna get through numerous things today about how he's finding deals and how he learned to underwrite and some different things about underwriting and prepare for a downturn that I know you're not going to want to miss.

[INTERVIEW]

WS: Levi, welcome to the show, honored to have you on. You have some skill sets that I want to dive into today that I know the listeners are going to learn a lot from. Before we do that, tell us a little more about who you are and your business.

LA: Yeah, thanks for having me, Whitney. Happy to be here. So, I grew up in a small town, on a farm, not your typical lifestyle, I guess, getting up early before school to help out on the farm. And I just kind of thought it was normal to working at a young age and helping out your family however you can. And I graduated, went to one year of college in eastern Idaho. And then, I went on a two year mission in Peru, learn Spanish, learn some good skill sets, I guess you could say for business like goal setting on a daily and quarterly basis and making plans and contacts, stalled out contacts and business, and return home from that, went back to school for another three years. And, met my wife, moved to Utah, got into real estate, got my real estate license, kind of started out in that aspect. I didn't love it. I realized early on I liked the investment side of things, kind of more the logistical and numbers and not the emotional part of residential. And I started read Rich Dad, Poor Dad and some of those books and got the bug and the rest is history, I guess.

WS: Yeah, that's a book I've not heard of before. I'm kidding. That's incredible. Well, yeah. Tell us a little bit about your portfolio today.

LA: Yeah, so most of my portfolio is in Utah along the Wasatch Front. And then we had two assets in San Antonio, we just sold one. And then we've got one project in Fort Worth, Texas. So yeah, we're mainly focused on Utah but the Texas markets as well.

WS: Okay, awesome. Well, let's jump into some of your skill sets. I know you love underwriting, deal sourcing, let's jump into some of those. Maybe we start with deal sourcing. Let's dive into some ways maybe you've been creative about finding deals. And I hear more and more right now you know about how hard it is to find deals has been more difficult for us as well, you know, and so tell us a little bit about your thoughts around like deal sourcing, maybe in general and then let's dive into the current economic climate as well.

LA: Above all else, I would just say relationships just trying to build somewhat of a deeper relationship with brokers. Probably the best deal I've ever done. It's a broker that he's now like, literally my best friend and we're partnering on other projects together like as principals and that's the thing you just have to go out with the brokers, go on the tours, get to know them better, let them know that you can perform, that you've got the ability to get the equity, you've got a KP for the debt, just giving them a surety of close, but really just getting to know them more because they like to work with people that they like and that's how you get more deal flow and the chances of actually winning a deal because they have a lot of say in persuading owners, what buyer group to go with.

WS: Awesome. Well tell me a little bit about it. You said obviously relationships above all else, I couldn't agree more almost in every aspect of this business, right? I mean, it's such a partnership type business as well, you know, to getting a large deal closed. But, it's interesting you know, you've found this broker, you connected you become good friends, and now you're even partnering on some deals, but you talked about giving them the assurity of closed how have you done that?

LA: Just for one you got to know the lingo. Usually a broker can tell within five minutes on a phone call, whether you're a tire kicker, you actually you know, have intentions of closing the deal that you have the resources. So I don't know, you don't really think about it a lot because it It's a lot of it is just the talk and you can tell that they either know what you're doing or you don't. So you got to know the lingo. Yeah., coz like, it's not really a thing like show a proof of funds, if you know what you're talking about, it helps give them confidence,

WS: Yeah, knowing the lingo or I was gonna say you've been through a few of those calls, you're gonna figure out maybe the hard way that you didn't say the right thing, right? You talked about even though they like working with you they like I mean, that's almost anyone, right? I mean, it makes so much sense. No doubt about it, you know, speak to how you met the broker that you've become such good friends with? Or how did you go about that?

LA: When I first got my real estate license, I was thinking about becoming a commercial broker. And I went and interviewed with Marcus and Millichap. And I met with this kid. And we found out that we had a lot of friends that I went to school with a lot of like his friends, where he grew up, we just knew a lot of the same people. And he grew up on a farm as well. And we kind of just clicked and just started working together on trying to find some deals to work on together.

And he kind of persuaded me don't go into commercial broker drought, like if you're already confident enough, and you know, wanting to do this syndication route, and being a principal on the ownership side, just go full steam ahead with that. So he kind of gave me confidence to just to go for that.

WS: Awesome.Yeah, so you met him, and then you did go that route, sounds like. You know, speak to go on that route a little bit, to having that confidence to start syndicating deals. Where did that come from? Or did you have mentors? Did you have a part of masterminds? Or what was it that made you know, that, hey, I can go buy large deals and raise the money?

LA: I wished I would have went the more mentorship route, like a paid mentorship route. I just listened to a lot of podcasts and got my mindset right, kind of, just reading the right books and telling myself I can do it. And then I had a lot of support from my family and friends. In 2012, I bought a chunk of farmland with the help of my parents and paid them back over the years with the profits it produced, sold it in 2018. I also had some cows that I raised. A cow calf operation, I grew throughout high school and built up some capital that way. So my first 18 units I bought with my own money, and it was kind of proof of concept, I can do this, I can get the debt on it, I got seller financing on the first deal, so I didn't need to get the bank loan. And then yeah, I got 18 units and you know, no more money to buy more deals myself, ended up finding 124 unit deal in San Antonio off market and then approached established operator there to partner with and then he kind of helped me. After meeting with him and seeing like, he's not that much smarter than me, you know, if he can do it, I think I can do it. And I learned a lot from him. And he gave me confidence. So I guess a partner early on as well is if you're not going to go the mentorship route, you really need a partner to kind of help you push through the fear and do it.

WS: Yeah, you know, I love the story too of you having the cattle business from a young age. And then, I mean, I just think that that probably taught you things that you even take for granted that you don't even know it taught you, you know about business and, and just how to think and even the ability to work hard, right, or the willingness, you know, to work hard. And man, the lessons learned there. And I say that because there's a friend and a mastermind that has a cattle farm. And he said that when his boys turned five, he buys him a calf. And you know, it's like, they have to learn to take care of it. And then you know, they sell it. And then the next one they can buy, you know how they grow and learning and they grow their own little business. And it sounds like it's similar to what to what you did.

LA: Yeah, for sure.

WS: You know, and I even as a, this seems so off topic, but I don't think it is, as entrepreneurs and as parents, you know, how would you look back on that situation? And even on that experience and say, "Man, I want to do that as a parent moving forward." Or maybe you know, my parents helped me get this cattle business going, or maybe they did or didn't, I don't know. How do you think that helped you? And would you do it in the future?

LA: Yeah, looking back on it does seem really helpful. But looking back on it, it was definitely helpful. Just learn how to run a profit-loss, you just, you know, you got to figure out how to control your expenses and the hard work and responsibility of taking care of them. And later on, I realized it was a business I didn't want to be in just because it was harder to scale and not as efficient and hard work. And but yeah, looking back on it. It's there definitely a lot of principles that could help a child out I would think.

WS: Yeah, that's incredible. You learned a lot anyway, even if you didn't continue in that business. But, you know, that up to 18 units, right, you're able to buy your first 18 units you mentioned and then you'd mentioned you found this 120 some unit deal in San Antonio. And then it was up through the partnership. You know, the guy you met there. Speak to I mean going from 18 to 120, even going to 18 is a big step. I think most are fearful of taking that kind of leap in the beginning right? Most go the single family route first. You took 18 units down. I think that shows a lot there about your willingness to step out there and do it. How did you have the competence to manage and buy that one and make it happen?

LA: Yeah, so it was two deals. The first one was eight units in 2017. And then 10 units in 2018. And early on, I was watching a lot of Grant Cardone on YouTube and just talking about bigger is better, it's more efficient. Everything about it is easier and kind of just gave me the confidence and the willingness to try to look for a little bit bigger deal and an eight unit popped up that made sense.

My brother was a little further along and he's gotten into self-storage. He still helps on the farm, too. He's managing the farm, but he knew a little more about underwriting at the time, and he kind of helped me make sense of that deal at that time. But yeah, I guess just seeing what other people would say about it's more scalable, it's easier. I actually flipped one house and it took me like four months. I did almost everything myself because all the bids I got were too high to make any money on the deal. And I just realized early on, that's not a business I want to be in.

WS: Again you learned a lot I'm sure, you didn't stay in that in that type of business. But, you found this 120 unit, how did you find it?

LA: Through a broker. I kind of targeted more than junior brokers that hadn't been in the business as long and kind of established a relationship with him and at that time, you know, my lingo was down pretty good. Our conversations went well. He was confident in me and yeah, it was another broker, more of a senior broker in this office that had an off market deal and yeah, he showed me it and I use a third party underwriter I used for two years, Sapphire Partners. I don't know if you've ever heard of them but they're they're really good for a third party underwriter. That's actually who my partner used a lot as well, that I partnered with on this 124 unit.

And yeah, it made sense. I approached him about like a couple other deals before this that we ended up not pursuing. But yeah, we made sense of this one. And yeah, it was nice to have him by my side to help get the equity raised and get the debt.

WS: Yeah, that's incredible. I mean, even the the tip on targeting a junior broker, so somebody that's maybe a little more hungry, he doesn't have a ton of investors already in his Rolodex right, that are ready to pounce on a deal. And you know, you came in with some confidence. I'm sure you shared that, you know, you got a cattle business, right, from a young age. I'm just kidding. Are you maybe you did.

LA: We have a fairly sizable farm land operation.

WS: Then that is credibility.

LA: So yeah, it is. And I like to say that I didn't get a lot of help from my family. This assumes that I'm kind of, you know, I was born with a silver spoon, and I got a lot of help from them. But like most of the money I raised early on for my first few deals was other family and friends, like they'd invest a little bit and I found that partner. And I really, I kind of wanted to prove myself on my own that I could do this business. And that's another reason I didn't really love the idea of continuing to farm and ranch because I kind of wanted for my own satisfaction to pursue this business on my own

WS: Speak to, you know, using a third party underwriter, I bet there's many people listening, you haven't even considered that. And I think getting started that could be a game changer, right? I have that kind of experience to be able to look over a deal with you and really ask you some questions. So, you know what you're getting into, potentially right? But speak to maybe how you came upon using a third party underwriter and maybe some do's and don'ts that that you learned doing that.

LA: So it was my partner early on, that introduced me to this underwriter that he had been using. So yeah, we kind of walked through the spreadsheet that they use together, and I really liked it, it's really detailed. And so yeah, the lender write the deal and just kind of put in some standard assumptions. And then you know, we would go over those assumptions and play with them, depending on the market, the location, the asset class, and then they would put, they would write like a sheet just with all the points about why they used further underwriting, you know, what they plug in the T12, and the rent roll, and then they put in their assumptions for expenses and then they say why they use this and that and they they'll give some some comps that they've used. Because you can make a spreadsheet say whatever you want it to so be careful that you're looking at the assumptions.

So yeah, you got to know the model, you got to make sure that you know, you know the functions of the model make sure everything is correct. And then yeah, overlooking the assumptions. You can't just take it at face value, it's good to look at it, compare the T12. Compared to their underwriting and you just you can't take it for face value you got to dig into it and really change the assumptions and tweak it with talk with the management company, have them underwrite it, before you send them your underwriting, you know compare yours with theirs.

Maybe if you have another partner have them underwrite it and just kind of just play with it because every deal you can think that okay, my my insurance or my payroll or this or that it's going to be this per unit for every deal. But depending on locations, they can vary. So it's always good to get another opinion from your loan broker, from your management company.

WS: For sure. You mentioned before we got started that you loved underwriting, and I just wonder, like, you know, from using third party to now really understanding underwriting and you know, and loving that, how did you gain competence? And how did you learn that skill set? It's something that gotta be in a lot, right? I mean, you got to underwrite lots of deals to be good at it and understand what's happening on that sheet even that you're talking about, right? And so how did you do that?

LA: I guess, the basics of Excel is college. But other than that, like I took the Michael Blanc courses early on, the syndicated deal analyzer, just a few of those, like programs or videos of underwriting. But mainly, it's just self taught just underwriting a lot of deals. And with time, you know, practice makes perfect. You just got to look at a lot of deals and underwrite a lot of deals to see how deals can change by size. And you know, what assumptions to use.

WS: Yeah, what about, you know, how has your underwriting potentially changed over the last year or even few months?

LA: Well, I've never really been able to make sense of the older value add deals pitter like the cap rates are just as low or lower than nicer construction, high quality deals and better locations. So I guess it's true early on, I kind of thought that that's what you have to do, you just have to buy these older tire deals, because that's where you can make sense of it.

But I've found out that a lot of times you find a really nice quality deal, and it's just not being managed properly. And you know, you can get just as good returns on those deals and get better debt. You know, there's more lenders that want to lend on, it's easier to, well, I don't know, I shouldn't say it's easier to raise the money, sometimes investors sort of kind of program for the value-add to. So yeah, I guess I've just learned to not just go with the masses, just kind of look with a clear lens on where I think there's opportunity.

WS: Yeah, speak to some of the opportunities you're finding now and where you're finding them? You know, we were talking about this a little bit before the show, but even identifying opportunities. So I mean, kind of what you're talking about now, but that are not maybe, what everybody else is running after?

LA: So in the middle of COVID, there was a deal that was fully marked, it was a deal, 52 units, it was fully renovated to the studs in Ogden, Utah. And really nice deal, really good road visibility, high traffic count. And they came out with the deal like start of the year, like writing during COVID and the sat on the market, and the partners wanted to split up. Part of it was the broker is my really good buddy, so he wanted me to get the deal as well. But it sat and they weren't getting offers out their pricing that they wanted. And it was like in June when I put it under contract, and for like 1.7 less than their asked price, which was a six cap on the in place and ally. And the market has been great, too.

I mean, we've grown rents like 40% and grown the other income. So yeah, I mean, just like sometimes there's marketing deals, they're good deals, and for whatever reason, they sit for a while, and the seller is motivated to sell. And so, that's one deal.

And other one was just it just got leased up. And it was more of a residential management company two deals actually that done like that, where they leased it up, they didn't get all the other income. And I know pretty well where we should be on other income. So yeah, that was an opportunity just based on in place and why it wasn't that great. But I knew the rents were below market and the other income.

WS: Because of non market knowledge that you had, you could see pretty quickly there, this might be a diamond in the rough.

LA: And just moving quick. I knew what he wanted, like this is a deal in Salt Lake City, Utah, downtown close, like a few blocks north of downtown, and he wanted five and a half million and I underwrote it. And that made sense for five and a half and tied it up. You know, it's been a great deal.

So you can't always try to beat it if you know something's priced right and it makes sense, you got to move on it. I just feel like you lose more deals. If you're trying to if you can make sense of a number you got to move on it quick.

WS: No doubt about it. I think it's great advice. You know, speak to preparing for a downturn or preparing for a pandemic or, you know, as you're doing your underwriting, you know, obviously you can't project a pandemic happening, right, or what's going to happen after that? And maybe it's not something that you know, severe however, man ballers still go out, right? You know, the market still goes, it takes a dip or whatever it may be, what does that look like when you're looking through a deal to think you know what, this is a good deal. And even if that happens six months after we close, we're gonna be okay.

LA: So there's things you can control and there's things you can't sell on the things you can control, like debt is a big one. I've used a lot of like local credit union debt, and it's partial recourse. But you can get you know, a five, seven or 10 year term. A lot of these deals, I've been getting a 10 year term, a 30 year amortization and two to five years of interest only because I've built six loans with one credit union. So I built a good relationship with them. No prepayment penalty, I'm getting good leverage, a longer term.

So it's not like a two or three year bridge loan where, you know, once my maturities up, I gotta refinance or sell. I don't know, I guess I've just gotten comfortable. And I've done some smaller deals like I'm doing one right now it's a 15 million loan amount, that one's a little bit bigger, it's gonna be partial recourse. It's an extended stay hotel to apartment conversion in Utah. But most of the deals I've done are a little bit smaller.

So I guess, once you start doing the bigger deals, you just can't really do the recourse because you can't have a whole recourse on your balance sheet. But if you're okay, with a little partial recourse, that's one way to be able to get the longer term, but still get decent leverage. And then when you stress test your deal, you know, if you can get quite a bit of IO, you know, where's your breakeven occupancy.

WS: Yeah, that's some great advice. And it goes back to that relationship you're talking about earlier, right? Even with your lender, and you're talking about doing some, you know, decent sized loans with this credit union, then all of a sudden, you need 15 million. Was the 15 million through them as well?

LA: We're in the middle of doing it right now. Yeah, well, it's probably going to be a different credit union. But yeah, we're definitely using them as well, to kind of push back on the other lenders that we're shopping with.

WS: That's awesome. We've done some of that as well, because we can get a lot better terms often with those. But, you'd have to think through the recourse a little bit. How do you feel about that? You know, how did you justify actually going down the recourse route versus, you know, agency?

LA: Yeah, I mean, I've done agency deals is my three biggest deals right now. They're all non recourse ones, a Fannie Mae ones, a Freddie Mac, and once a non recourse bridge. But yeah, I guess I just felt comfortable that worst case scenario, we can ride things out. We feel good about the markets we're in with the diversified employment, you go back to the GFC and how the local market was affected, like in Salt Lake City, like occupancy has gotten down to 91%, rents dropped like 5%. And we can break even like it on like our worst deal, like at 70% occupancy. So yeah, I guess I just feel comfortable that we can write things out and cash flow and our debt maturity is years away. So yeah, I guess that's how I've gotten comfortable with the few.

WS: No, that's awesome. And because some people are like, completely against it, and some are okay with it. I mean, we've done some, you know, as well, just because it was such better terms. And like you said, there's, you know, it can be much longer term as well. So we, you know, we feel really good.

LA: And ideally, you get out of it, and 123 years, if you can force the value, but worst case, you do have a longer term, so you should be able to ride it out.

WS: That's right. What about what's your best source for meeting investors right now?

LA: I mean, referrals, oh, it's been the best, just happy investors. And then referring me. I guess, just social media, kind of trying to attract people, which you've done really well with this. I don't have a podcast or any kind of platform. So I'm a little behind the game on this. But it's always better to kind of attract people and you know, either they're kind of aligned with your interests and your beliefs and more, they're not. So it's always better to take that approach than trying to kind of go to someone getting them to invest, just never pushing investors just get to know them, let them know what you're doing. And let them kind of come to you.

WS: What are some of the most important metrics that you track? It could be personally or professionally.

LA: Not really unit count, but I'm kind of getting to the point where like, we're financially free, we're comfortable financially. And over the past couple years, I've debated like, should I just do one or two big deals a year, you know, for keeping me busy and I enjoy it. Or should I really establish a business and do this on a bigger level. And I've went back and forth a lot and I've decided that I do want to grow a bigger business. Because it's more than just the money, you got to have a purpose and a mission.

And you know, anyone that hasn't been there might not agree with that. But most people that have, they agree that you get to a point where the money does, it comes second, like you really start taking a satisfaction in helping other investors grow their wealth and helping you know, improve communities and you just feel better about yourself, if you're actually doing something bigger than for yourself.

WS: No doubt about it. I've talked about it a lot but you gotta you need a mission, you need something bigger than just financial gain, right? And I think when we had that, that's when my family was on board, that's when my team got on board, that's when investors like care about investing with us more, you know, when they start knowing that they're part of something bigger. I couldn't agree with you more about that.
What are some habits that you're disciplined about that have produced the highest return?

LA: I would say just like continually wanting to educate myself, like it was almost getting like bad like where I was constantly wanting to listen to podcasts and research things and just learned so much and I've kind of tone it back a little bit because, yeah, sometimes my wife would be like, "Man, you're overboard on this." But yeah, I've just always had a desire to learn more and try to improve the business. And so yeah, I guess just a continual desire to learn more.

WS: What about the number one thing that's contributed to your success?

LA: Yeah, so I guess besides learning wanting to continue to learn more, I guess just trying to look past myself like when I get other partners wanting to partner on a deal, it excites me and you know, it's not just about me trying to you know, make a living. I'm trying to help them get out of their job or you know, whatever they're trying to do just kind of looking past your own needs.

WS: And how do you like to give back?

LA: My wife is the big giver in our families like for birthdays and Christmas. If she knows you, she's getting you some. We tithed through our church.

WS: Could you tell her when my birthday is? I'm just kidding.

LA: Yeah. And I guess other than monetarily, just it wasn't that long ago that I was trying to get into the business and I know how challenging it is. So I'm always happy to help newcomers in any way that I can.

WS: Awesome. Levi, it's been a pleasure to meet you. Have you on the show. Appreciate your transparency, your willingness to share your story from you know, the cattle farm to man, making it happen in real estate. I mean, to do an 18 unit deal, right off the bat. I think it's very impressive. But then even more impressive jump to the 120 plus unit right? I mean in making that happen as well, finding partnerships, finding money, making the relationships happen with brokers and lenders to make it happen. And now you've done numerous projects and growing quickly, and able to scale if you want or not, right? I mean, you have that option, right? That's because of the willingness to work and put the time in you know, early on. Now you have that option and so grateful for your time. Tell the listeners how they can get in touch with you and learn more about you.

LA: Yeah, my website is wealthcreationmgt.com or levi@wealthcreationmgt.com. Or find me on social media, Instagram, Facebook, LinkedIn.

[END OF INTERVIEW]

[OUTRO]

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