EPISODE 1397

[INTRODUCTION]

Sterling White (SW): You guys, please, if the deal doesn't make sense for you to raise all the money upfront because the numbers just don't look that attractive for your investors, please move on. Do not make this mistake. I remember hearing others say the same thing on podcasts such as this, I was like, ah, that's them. I'll go ahead and do it anyway. And it came back in biting.

Whitney Sewell (WS): Welcome back to The Real Estate Syndication Show. I continue the conversation with Sterling. And he is sharing and being so transparent about so many things that I'm learning so much from. I know you are as well. I hope you have liked and subscribed to the show whether you're listening on YouTube or on your phone one way or another. We would appreciate a comment and a five-star review as well. Please stick around, Sterling shares so many, just many great tidbits that are going to help you to improve personally and professionally to getting to the next deal also.

[INTERVIEW]

WS: Sterling happy to have you back again and we're gonna keep diving in. You've just shared so much great value you've packed in here just from your amazing experience and journey.

SW: I'm working on it, Whitney, I appreciate you. I mean, we got a good dialogue going back and forth. So you're able to pull it all out.

WS: I'm trying to. I'm trying my best. So, grateful for you. You have learned many ways to be creative when getting deals done. I think that's just part of being an entrepreneur too in a big way. Not saying no, figuring out how to get a yes. And being willing to go through many nos before you get there which we've talked about. But there are many things that you've done to be creative about financing deals and finding capital, whatever it may be. A lot of those things long before you started. Maybe syndicating deals and raising a lot of money. I mean, you've learned many skill sets. But let's help the listeners a little bit think through some of those things that maybe back where you are where they don't have the capital or the credit, but they need some creative ways to think through getting that deal financed, right? Or his strategies. So let's jump into some fundamentals there that you've used.

SW: From the fundamentals on the single-family side to the multifamily, Whitney?

WS: Sure, maybe some things where you got creative on how you finance. I know, even the one deal that we were talking about before the multifamily deal, I think it was, the seller was Chris, I think you mentioned and you had to get creative, or he ended up doing some seller financing. I think a lot of times people wouldn't even think that that is an option. But like the potential buyer or the investor, or they wouldn't potentially even know that that's an option they could pursue. And oftentimes the seller wouldn't know it either. Like they don't even know that, hey, maybe this is a good option for me. And so let's talk through that a little bit.

SW: Yeah. And so in that particular one just knew that, hey, we want to get this deal done. However, the conventional route would be a lender looking at that deal, 65% occupied. They wouldn't want to touch it, because it's very risky from their side. So we said that, okay, well, we could go to other lenders and start to maybe a commercial broker and start to shop it around. But we thought, why not just ask Chris, would he be open to seller-financing? And that was around the time when we were just looking at creative ways. And we had already had in our back pocket seller financing option. And we just said, hey, we actually went back and forth on price a couple of times, because he actually originally had it listed before for $1.4 million, of which he had it listed with his sister. And that just ended up not working out. So the listing expired, and he ended up just removing it. Then when we ended up calling him up, I believe we were at $1.2, we were at $600,000. And then we said okay, well, let's go ahead and meet in between. However, this is our terms. So, your price, our terms now in that case, because we still had to come up a little bit more than we actually wanted to. So, that's when we said, okay, we'll do the $900,000. However, it'll be in a seller financing option. And then he said, yeah, that's something I would definitely be open to after we pitch it all.

WS: Awesome, and speak to the technique of pitching it.

SW: So, it was on the side and just having a transparent conversation and sitting down and saying, hey, Chris, one, we've already spoken to our lenders, and they said this is something they wouldn't consider. So we've laid it out. He's an operator himself so he understands that it would be difficult to get financing on that property. So that's what really helps is just laying it all out transparently, this is where we're at. We have a track record in single-family. So the credibility was there for us to close on the transaction. So we sat down, hey, this is the condition of the property. We've already talked to several of our lenders, it's not close to them even considering it and then that's when we said would you be open to seller financing? And it wasn't even much back and forth. He just simply said, yeah, because there was that motivation that he wanted it to be done and out the property. But also on top of that is that it was a three-year balloon. So that goes to show he was also motivated to go with the seller finance option but he wasn't motivated enough to do a longer-term type of deal or structure.

WS: Wow. Okay, so a three-year balloon, that's even another thing we haven't really talked about. What does that mean exactly for the listener? You know, if you say a three-year balloon, why was that advantageous for that seller as well?

SW: Yeah. And what I mean by a three-year balloon, it was a three-year term and then at the end, whatever is left remaining, we would have to pay as far as on the loan. So from that, what was advantageous from the seller's angle and how it's going to work is the first year was 3% interest rate then would go up to 5% then it would go up to 7%. So we were also incentivized to either refinance or sell the property because the interest rate was steadily going up. And then also there was that and then it was advantageous from the seller's angle to do the shorter term because he didn't want to extend it even longer. Because he's saying that in that side, it would be even more risk from the standpoint of he just wanted out of the business. So, that's why he wanted a shorter term.

WS: Yeah, no, that's fine. it incentivizes y'all to get this property performing too, right quickly, so you can refi.

SW: Exactly and get them cashed out.

WS: Yeah, that's awesome. And I just think it is a great option for many sellers, and they don't even know it potentially. I know, there's always that question. Well, who is this person I'm trusting the right to potentially buy this property while I still own it. Any other creative financing techniques, maybe that you've used or that somebody could think through?

SW: I'd say that would be the main one that was used. Outside of that was buying single-family strictly cash. I believe there may have been one additional seller finance. But before that majority of single-families were cash, that 46-unit deal was seller financing. And then after that, we're pretty much syndications.

WS: Okay, and then what kind of debt then moving forward?

SW: Yeah, so, the ones going forward. Besides the deal after that, it was whatever the purchase price let's say was $10 million dollars, then 70% of that will come from the lender, and then the remaining 30% would come from investors. The next deal after that actually, was a simple, straightforward deal, too. That was all cash of $1.4 million that we've raised on that particular deal. Actually should not have bought that. And this is one mistake I can go into at a later point. But you guys, please, if the deal doesn't make sense for you to raise all the money upfront because the numbers just don't look that attractive for your investors, please move on. Do not make this mistake. I remember hearing others say the same thing on podcasts such as this, I was like, ah, that's them. I'll go ahead and do it anyway. And it came back in biting.

WS: So, y'all didn't raise all the money upfront. When you say all the money, like all the money for what?

SW: So there was $1.4 million for the purchase price of the property. And a portion of that was actually raised to take care of the renovations but didn't raise all of the money upfront to take care of the renovations, because that would affect the returns to the investors. So what we said was, oh, we'll be able to take it out of cash flow. But that just didn't end up panning out because our cash flow wasn't where we wanted it to be. And then the units were turning for us to then upgrade those that get the increased rates and there just wasn't enough cash coming in to take care of that. So actually had to end up selling it. And this is the thing I ended up doing on that particular deal. But just think this was at 2018, no, I would say 2018, beginning in 2019 when we sold that when the market was really starting to heat up, just think if we were at a different cycle and had to sell that property. So that's why I want to share that experience with people because it's a very common mistake that people make.

WS: Yeah, no, I'm grateful for that. Because I hear that as well. People think it's gonna come from cash flow and say, I want my reserves and Capex and everything from day one. I guess you just don't know, like you said even in an earlier segment, it's like we make those projections as best as we can from all the information we can possibly gather. We make sure it's as accurate as we can but things still happen. And we know that in this business,

SW: A pandemic.

WS: That's right.

SW: Who saw a pandemic coming?

WS: That's exactly right. And we want to be prepared.

SW: Well, I mean, probably somebody but that's all conspiracy theory.

WS: Somebody probably saw it coming. Anyway, it wasn't me. But I'm thankful we had reserves and right all those things in place. So when the pandemic happened, it wasn't the end of the business right? Now, grateful for that. Well, Sterling, I want to move to a few final questions. We've talked about so many great things. And but I want to get your take on the market a little bit, or maybe predictions you may have or how has this changed your business? Or are you buying, selling, you know, over the next six to twelve months? And what do you see happening?

SW: So, I have been selling and I have started to see a bit of a softening in the market. And it's not entirely shifting, in my personal opinion, to a buyers market. There are different such as single-family that's a little more different where the agents I've spoken to have actually really starting to see more of a softening there that properties would just be bid up. And then also they wouldn't sit as long they will go relatively quickly. They're starting to slow down is what I'm hearing from the boots on the ground. Multifamily is still pretty strong, because with inflation that's going on, yes, interest rates are going up, but inflation is also going up. And what also goes up with inflation is rents. So rents go up too. So I still see multifamily still continuing to for the next I would say especially the next six to 12 months is still remain stable. And also there's low inventory that's up there too. And there's still a high demand. But I would say that it still has slowed down from the time of the what people can pay for it because of those interest rates. So it's very interesting. I believe at some point it will start to, expectations of sales will start to come down to be more in line with where the market actually should be.

WS: What about preparing for a potential downturn or, you know, or something big happening? Or maybe it's that pandemic and you know, the market is just not going up like it has been, and a pandemic happens? And maybe some of your boilers goes out, right? How are you prepared for that, in some kind of a downturn or all those things happening?

SW: I'd say first and foremost is how you did the deal upfront which you had mentioned earlier as having that Capex allocated and also those reserves. So, you did that on the front end and not overpay for the property rent in the case that well in that earlier deal that I mentioned is that the deal is so tight, that you're not able to raise those reserves upfront or let's say the additional cash to take care of Capex, then it's just best to move on on that deal. Because in the event a downturn does happen, you just didn't properly protect your downside. So, I would say, on the front end, doing the proper due diligence and the work to help you during an 'oh crap' moment.

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

SW: I'd say digital, pushing out content on the content marketing side and building a personal brand. That's what I found to be the most effective.

WS: How do you push that out? Give us a few details here and maybe the listener can start doing today.

SW: Yeah, so first and foremost, I started on BiggerPockets, and huge m a great resource for everyone. It's free to use, and I don't get a kickback for you to sign up for a free account. So, that's one source I got on there and this is when I first started. As I was in the forums offering value to people and you say okay, how can I offer value to people, what I was doing to people who were looking at Indianapolis as specific zip codes, for instance, I was born and raised in Indianapolis so I will just provide my own opinion and feedback and insights. So that was one way. And then in the forums, and then also it started doing blogs on bigger pockets. And then from there as I started just doing other content for them, as well as a contributor. And then I started branching out myself. And also just being on podcasts such as this is a great example. And also going to industry events and putting yourself out there because you never know who you would and could meet.

WS: Yeah, great tips, you got to put yourself out there. And that's a step that some of you are not willing to begin, unfortunately.

SW: And this is the thing too is if that's not you, which is understandable, it's not for everyone. And that's how it was for Jacob as an example. He's more of an introvert, more behind-the-scenes running than the numbers. I was that person that did that. So it's either you find someone who complements that and will do that, or you just got to do it. Or you could pay someone instead of giving them exchange equity within the company. Or the last one is you could just come up with an excuse and just not do anything.

WS: And hopefully we don't do that. Right?

SW: Yeah, exactly.

WS: So Sterling, what are a couple of the most important metrics that you track. And that could be personally or professionally.

SW: I would say when it comes to physically, how often I am working out on a weekly basis. It has been anywhere between about five to six times a week. That's one of the things I have on a consistent basis. And then also when it comes to reading is consistently reading. I enjoy reading autobiographies. I'm actually just now finishing one by Bryan Cranston. Are you familiar with him? Breaking Bad? Also Malcolm in the Middle?

WS: I've heard of that.

SW: Okay.

WS: What's the last one?

SW: Malcolm in the Middle. It's where I grew up on as a kid. So I'm a little bit younger. It was a great show, but he was the husband in that. I'm trying to think of something else you may know from. I read another one on Dr. J, Julius Irving, what was another one? I just enjoy reading those types. So there's that. I would say those are the main ones.

WS: And that's maybe some of the same answers. Okay, if it is by one, I always like asking, what are some daily habits you're disciplined about that have produced the highest return for you?

SW: Consistently working out, that's one. Second is taking time throughout the day and just thinking and this is one thing I've really started to sharpen over the years. And that pandemic really helped for that is just asking questions. Those questions lead to other questions and down rabbit holes and taking more interest in philosophy that's out there. And so one of the things is that the philosophies I've taken on is one not taking anything personally what people do because people act in their best interest, which is completely understandable. And some of the time, someone's best interest is not in your best interest. So it's just accepting that and then also seeing the world for what it is and not what I believe it should be. So, taking on these philosophies and just taking some time just sitting and just thinking is one of the things that's really helped me throughout the day to just stay more poised and calm.

WS: Have you read the book “The Road Less Stupid”?

SW: No, I have not.

WS: It sounds funny, but it is a good one. I've got it right here. Keith Cunningham. And so every chapter in here is like its own book. It's like business advice, almost anyway, but a big thing he talks about I've talked about on the show a bunch is ‘thinking time’ and the importance of thinking time. And he helps you to structure that a little bit. And but it sounds like you're already doing that, you figured that out. And so anyway, I wanted to give you that recommendation, because it sounds like you're doing that. But it's a great book.

SW: Lastly, is mitigating social media. That has been huge for me is that it's so easy to get bogged down on that because one, for those of you who haven't watched the Social Dilemma, it's a great… it talks about the effects of social media on us. And we're going against billions of dollars of technology to keep us addicted to these platforms. So that's one thing I would just say, first and foremost, is really limiting my time on these particular platforms. Sometimes, I just go without it altogether.

WS: Yeah, I would prefer not to be on any of them personally, if I could. It's almost a necessary evil for business anymore. But you can have team members that do it for you on the business side.

SW: There we go. Fair enough.

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

SW: I'd say mindset. That has been the make or break in how I actually view things. And instead of looking at, let's say, the upbringing I came from, I remember having a conversation with one of my family members, and all they were doing was just complaining. And I was just thinking that that's a prime example of just, yeah, you can complain about things. And this is just a prime example of just complaining about things. But I look at things instead of complaining, okay, what are you going to do about it? Okay, well, you didn't grow up in the best of environment. Okay. Now, what are you going to do about that situation? Okay, well, you don't have enough cash. You don't have the credit, whatever the case is to buy that first deal. Okay, now, what are you going to do about it? So that's what I would say first and foremost, it really came down to mindset.

And then secondly, is just going out there and not being afraid to make mistakes, getting my face kicked in, and just taking action. That's what I would say to keep. But there's a two-pronged approach to taking action. This is one thing I want to share with everyone is that I've always been the person such as Juggernaut from X-Men. Let's say there's a wall here, Whitney, I will keep running into that wall and I ultimately break through it. But there will be a ton of rubble behind me. And sometimes I'll be bloody, but I'll figure out a way to get through that wall. But now, how can I actually take a step back and actually strategically think? Maybe I can build a ladder, or maybe I can go around the wall? So that's another thing.

WS: That mindset is so important, it's so crucial. I appreciate you hammering that home. Tell us how you like to give back,

SW: I'd say by sharing my experiences. That's one in my story, just to show what is possible out there. And then also part of "Big Brothers Big Sisters". So I'll be seeking at some point to get another little brother which is kids that are in the not-so-good environments and being able to mix with those individuals,

WS: Sterling, it's been incredible to have you on the show and really ask you to do a series of shows together diving in on some specific topics that you are an expert in and have become an expert. I am just grateful for your transparency. I know the listeners and I both are encouraged by your story and what you came from, and even at the end, you know, you're still talking about, hey, I couldn't focus on that, right? I'm gonna focus on what I can do about it and how to move forward. I just think so much of what is learned from those hard times and just giving you that mental almost grittiness I want to say. Just the grit to be able to push forward, and not focus on those negative things. So thank you so much. I mean, we've talked about so many things that are so helpful to all of us. How can listeners get in touch with you and learn more about you?

SW: Yeah, so you can visit SterlingWhiteOfficial.com One more time now, SterlingWhiteOfficial.com and then also on YouTube, you can find Sterling White. Type in the search bar. And coming right up, tons of content that I'm actually putting out on a weekly basis. Sharing more of these stories and also more insights on just the journey from single family multifamily and how the journey continues.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being a loyal listener, the Real Estate Syndication Show. Please subscribe and like the show, share 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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