

EPISODE 1417

[INTRODUCTION]

Keith Blackborg (KB): I really want to make sure that the syndicator's interests are aligned with the investor. I really want to know where their heart is and know that they truly want to take care of their investors and so I prefer to go directly to the owner-operator. I don't love going through other people who are raising money. I want to know who I'm giving my money to and I want them to know me.

[INTERVIEW]

Whitney Sewell (WS): Keith, welcome back. Honored to have this time with you and just to share your experience with the listeners. And I mean, you shared so much with us again yesterday and just investment opportunity strategies thinking through a concentrated focus on one type of investment versus being diversified and how we educate ourselves and masterminds and getting out there exposing ourselves to different types of investing and our vision for our personal strategy and how to do that. But today, let's talk a little bit more about you know, that deal flow pipeline, what is deal flow and how you've created good deal flow, and maybe even some best practices around managing that.

KB: So real quickly, I just want to just flash a visual that I've shared, and it's just about looking at all the different places you can source deal flow from. And once you know the places you can get deal flow from, it's about trying to pick the assets that might fit you. So, if I'm looking at my portfolio, and I think you know what, real estate is a place I want to go; I want to own a multifamily. I would love to have a solid, three different apartment syndicators if that's a significant part of my portfolio to pull in deals from. I don't want to be 100% on any one guy, life happens, things happen and I don't want to be overly concentrated. So I'm going to have multiple deal sources that are coming to my email box or whatever it is on a regular basis. In that way, when I've got extra money, I'm not scrambling to go find a deal. I'm, instead, just

getting to cherry-pick from all the multitude of opportunities that are in front of me and decide what's going to fit my portfolio right now. As I look at my portfolio, I've been heavily concentrated in real estate for a long time. I love it. It's done well. Not looking to get out of real estate but as that portfolio has really grown, I'm looking to pull out segments of that and get into other assets.

KB: So right now, I love hard assets with cash flow. What does that look like? Oil and gas, gold and silver mines, could be real estate, other things that are tangible because anything that's tangible is likely to do well with inflation. And I like things that cash flow because that's what pays the bills. It's what allows you to get closer to work optional where you don't have to work. And then once you've got your deal flow, you've got your pipeline, you've got deals coming up, if I know I'm getting money back from one of your deals, Whitney, you've given me a hundred grand, you've doubled my money, I, a month or two out can start looking at what are the deals that are going to fit me. I'm likely going to be putting money back with you assuming you've got another deal but also assessing where else do I want my portfolio to grow and expand that into something else. I really only want to be expanding into one new asset class at a time. I think it's important that you understand what you're investing in and for me this year, that thing was crypto. I know you had a speaker recently, Kristine Cranley. She's fantastic and she's given one of the best explanations of how crypto works. And for me, that's one of the reasons why I'm growing into that this year. Crypto is down this year, which is great, it means it's a good time to buy. Next year, I'll probably pick something else to grow into.

WS: That's awesome. That's a great example, as well, even someone you're learning from and you're pulling things from to learn that new asset class. You talked about having a few operators, you know, and then the syndication real estate space, for example. You got, you know, two or three people to three operators that these are guys that I trust, these are guys that want to work with. And then it's not just anybody, everybody. Maybe you could speak to even vetting those operators a little bit initially before you want to move forward with them. You know, you are you getting all these deal flow. You sign up on people's lists, I get put on people's lists, and I, you know, like, wait a minute, how did that happen? But how are you

vetting that operator to ensure that this is somebody I want to move forward with before we look at a deal or underwriting or those things?

KB: That's a fantastic question. And it's something that we talk much more in-depth on but I want to give your listeners all the highlights that I think of. So, first and foremost, I want to know who I'm investing with. There are some people out on other podcasts that when they do a deal, they've got their 1% to 3% acquisition fee, their financing fee, their asset management fee, their carried interest fee which can be 50% of the deal. They've got a disposition fee, and three other fees I'm not even mentioning here. So when it's so fee-heavy, I get the sense that their primary reason for doing this is to make money, not a bad thing but sometimes it can feel a little greedy versus other people that I know who are like, you know what, I'm going to stick with an asset management fee to cover my costs. Maybe there's something small to cover their salesperson but it doesn't feel overly egregious.

KB: I really want to make sure that the syndicator's interests are aligned with the investor. If they're trying to cash me out three years in with a refinance after most of the risk is off the table, not going to align with me. I really want to know where their heart is and know that they truly want to take care of their investors and so I prefer to go direct to the owner-operator. I don't love going through other people who are raising money. I want to know who I'm giving my money to and I want them to know me. That way, if they're to have to tell me, sorry, I lost 30% of their money, that's not going to be an easy conversation for them to have, especially if they know and they liked me. So once we know that they're good people, we've got good management, we've got we're aligned in terms of our terms, meaning that they're compensated when I'm compensated as an investor, that's the best matchup.

KB: Then I'm looking at a little bit about their operations. So I think multifamily is at a high right now, I think cap rates, I don't know that they can continue to go down, they're likely to go up. And I think they're starting to go up a little bit, meaning apartment valuations might go down a little bit, we've got interest rates going up. All that says to me is, not that I don't want to be in multifamily altogether, but I need to be careful. And so as a result, there might be some compression going on in the industry. People who are more in control of their projects, and

their costs are more likely to survive. So, I like it when people own their own management company or have a good strong management company that's got some real history with them. There are other folks I like to invest with who have their own construction company. They import materials from China, they've got multiple things, cost that they can control. And so they're likely to not only survive, they might stumble a little bit, they're going to thrive and be somebody who's able to buy up the other operators who are completely passive, maybe out of California, buying stuff up blindly. It's when the tide goes out that you get to see who was swimming naked, who was too thin on their margins who didn't have a solid business. In the last ten years people have been able to survive or do well, because of appreciation. I know some people have been terrible operators but had been saved by a rising market where they're able to break even or even give a little bit back money to their investors when maybe they should have lost money.

WS: Yeah, those are some great points to get anybody started thinking about investing in syndication or looking for that operator. You made some great points there. A couple of things, you know, looking for an operator, you mentioned, even in-house property management, in-house construction, and obviously, it allows them to control, have control, right? More control than if there's a third party, no doubt about it. What are some maybe just non-negotiables for you? Maybe you like for them to have property management in-house about, you know, maybe that's not a non-negotiable? Or maybe it's a certain amount of reserves, or maybe it's a certain type or amount of returns? What are some of those things that you think through like they're absolutes?

KB: The main thing I look for out of everything else because I want compensation aligned with the investors. If they're incentivized differently, and behave differently then I don't want to invest. It's not a deal for me. Because the moment they get paid upfront or a big payday on the refinance, I want it enough to cover their costs. That's also important to me. I don't want them to be brash in making decisions because they're cash-strapped. I want enough for them to make a little money and break even but I don't want it to be so strong that they're incentivized to do large transactions or take bigger risks simply to maybe get that bigger payday. That's the big non-negotiable.

KB: So once I know that the team is in place, and I feel good about the deal source, then I'm just evaluating the projects. And so in our community, I've got a due diligence memo. I'm happy to share that with your listeners where there are five big things I like to evaluate as part of every deal. And then there are some additional questions that help people think about the asset and whether it's a good fit for them. And depending on the asset class, I make myself go through and fill it out every single time and then I go to my wife. My wife isn't always intimately involved in all the transactions before we invest, either one of us can veto an investment decision before we do it. So, I have to be able to give her a deal memo, she gets to review it, and then we sit down and talk about it. So, she not only knows what we're doing but kind of why we're doing it. And it's a good sounding board as part of that, in addition to the community due diligence. So, often I've been able to assess whether it's even something I want to bring to her simply by discussing it with a group of other people and seeing what they see or don't see as part of that.

WS: Incredible. I love the, you know, going to your spouse, helping explain the investment potentially, maybe all spouses are not always as well versed in investing as maybe the other. Sometimes, it's the man, sometimes it's the woman. It could go either way. But I love that component of bringing them into that so they're familiar with it. And they also have the option to veto it if there's something they see. I can relate to that. Often when I'm speaking and say, you know what, my wife couldn't care less about real estate, right? But I thank the Lord she supported me in getting the business started in so many ways but mostly because of our mission and you know, things behind what was pushing us. But I want her to be involved. I want her to know about what we've invested in and how that stuff works as much as she can. So I appreciate that.

KB: And you have to, in order to under-explain something, you have to understand it and often just through me having to explain it, I learn more about it and that can also help me back down on the excitement factor and really evaluate the core components of the deal.

WS: Love that. They have some questions that make sure you think about: do I really understand what I've invested in here? That's great. And then I love that, just thinking through the operator, thinking through and sharing that with your spouse. Anything else you would share around knowing the deal or the operator? I know there are so many things we could go into, but maybe the operator specifically. Maybe there's even somebody you know, after mentioning the specific, but something comes to mind where it's like, man, I partnered with this person because I saw these things early on, or that I've learned about them. I get questions often from guests that are like, well, how do I attract that investor? Why do they want to work with me as opposed to everybody else? Or you know, what's going to make that person stand out to you over somebody else that has the same terms technically?

KB: So one, I want somebody who has a track record. What's interesting to me is people who started investing in multifamily pre-2016 are more conservative, and less greedy with the terms they charge investors. People who got involved in 2017, 2018, or later tend to be more aggressive. I think the margins are thinner for multifamily syndicators so they're trying to charge more so they can become a millionaire faster. They also have less experience and less time in the game, they're higher risk. I want to be around somebody who's been around for at least five years, who has had multiple successful exits and ideally has been through a down cycle. I want somebody to know what it's like when times are lean to actually be able to survive that as a result. I also, when looking at the financials, we're going to discuss this on our next weekly wealth call, we've got somebody who's going to discuss how to underwrite deals. I want to look at the T12. Do people just expect to be able to sell at the same cap rate that they're buying it today? I think cap rates are likely going to go up, meaning the valuations are going to go down as a result. And so I want to know what are their assumptions. Most syndicators are putting out a package, here's an overall number, and if you ask for the T12, or something like that, they have some reason why not to do it. And I'm less likely to do those deals.

WS: It's encouraging that you will take the extra steps and even ask for the T12. Can you send that to me? I'd love to look over that as well. Hopefully, there's not any hesitation there to be able to send that to you as an investor. I guess you could share before we move on to another segment, you know, the listeners that are thinking about investing with an operator. They asked

for the T12, or rent roll something like that and that can be a little overwhelming if you're not sure what to do with that. Is there a resource that you would recommend to even help them to know what that means?

KB: I know we talked about it in our group; I'm brainstorming, trying to think of a free resource that would be good for everyone. Here's what I would just suggest, look at the trailing 12, talk to other operators, and before you invest, compare at least three different deals and see how their terms vary. Also, I want to know, are they going to give...how's the investment communication going to be? Sometimes, you invest with somebody, they take my money, I don't hear anything back from them or I get one confirmation. I would like monthly or at least quarterly updates on how my investment is and tell me how it is. Don't just tell me it's all sunshine and rainbows because I know it's not. I like people that tell me the good, the bad, the ugly, I feel like I'm getting a more authentic feel of how my investment is. And if it's not going right, operators, share your wins and lessons.

KB: On the other side as a passive, I think it's important to be a good investor. As a syndicator, I've been on the other side where people are like, what's your pet policy gonna be like? You're only charging \$35, you should charge them like...I don't want to be so far in the nitty gritty. I'm making a macro-level decision. Is this somebody a yes or no to whether I'm investing with them. So, I want to be the kind of investor that's easy to work with. At the same time, I want to understand what I'm getting into. So, a trailing12, the financials for the last 12 months, the operating memorandum, really the legal document that kind of outlines the terms of everything that we're getting into, and a project overview. And from there, I can go out and I can Google the investment property. I will say every apartment complex has negative Google reviews because there's always going to be somebody who's going to complain no matter how good the operator is. But, I will still review it and see if like, oh if I see consistently the maintenance guy took two weeks to replace an AC in the middle of summer, I might be more hesitant about that. But then I really want to speak to other investors, is there any way I can connect with other investors who have had a track record with that and that's why referrals are my favorite way to find syndicators.

WS: Love that. Yeah, referrals. We could go back again to the mastermind component and meeting other people that are investing, a lot of what you said earlier too about going to an event where you can ask other operators who they're investing with and hearing firsthand and even asking them these questions right before even getting to talk to the operator, what's your experience been like? What's our communication like? Maybe they can even forward you some of the communication as well. Great information, Keith. I know the listeners are learning a lot about that operator right? How do they know who to invest with you? I would imagine you're doing some similar things, whether it's oil and gas and gold mining, those things also. Is that accurate?

KB: Absolutely. Management team is more important than the project itself. Once the management team is good, then I'll start looking at the project. One other quick example. There's a syndicator I invested with, got an apartment syndicator, got into the deal and there was some stuff that the seller had hidden. And ultimately, it didn't make sense to do the deal. So the investors were going to lose a half million dollars. Most syndicators would say, you know, that's just part of the cost of doing due diligence, we'll roll into the next deal, it'll be okay. This person instead said, you know what, guys, I don't want this to affect us. They cut that check out of their own pocket, that half-million dollar loss.

KB: That was a big check to write. But as a result, all investors were made whole, they went into the next project, and they went above and beyond. And they've got a faithful list of investors, meaning, this person, whenever they put out a deal, it fills up extremely quickly. And they're now doing \$30 to \$70 million raises. Huge, but it still fills up quickly because everybody tells their friends and family how well they're treated by this person. They got good systems and communication, they do their investment parties where you get regular updates on their projects. We've got confidence in them and that's why they continually attract investors.

WS: That's a great example. That's incredible. Keith, thank you again, just a great segment, so many great things about finding that operator and knowing who they are, I feel like it can be applied again to different asset classes. And you know, as they move forward with learning to

invest. Share with the listeners, again, a quick way to get in touch with you and I want to jump into another very important segment that the listeners are not gonna want to miss.

KB: Looking forward to it. Yeah, people can connect with me on my website, FinancialJourney. I love working with business owners, and accredited investors, and really helping them reach work optional in three to five years. If you already have a \$2 to \$3 million net worth, it's often just a repositioning of assets into the kinds of deals that can give you 12% to 20% plus cash flow on a regular basis. So, a million dollars at 12% cash flow, that's \$120,000 a year. Most of my clients are earning 15% to 20% plus, I don't like to really promise the big stuff but people are getting it and I love to show people how to do so reliably without taking giant risks. And then once you've made or reached work optional, what do you want to do? You've got freedom, you've got time, you got energy, and you want to focus on the impact on family. There's a whole world out there of opportunities, and I love empowering especially those who are faith-based who's got a big heart to give some way somehow, to brainstorm on how to do that or turn their wealth into more of a giving business. It's really fun to watch those people grow and change other people's life.

[END OF INTERVIEW]

[OUTRO]

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