

EPISODE 1425

[INTRODUCTION]

Peter Richter (PR): I think it's important to really walk them (retail investors) through every (detail) of the deal, explained to them. Some of them might not know how IRR works. You have to explain to them what an IRR is. Explain to them exactly what the strategy is, and why you'd like to stick with their strategy for value add.

[INTERVIEW]

Whitney Sewell (WS): This is your daily real estate syndication Show. I'm your host, Whitney Sewell. We are back with Peter Richter. Welcome back, Peter.

Peter Richter (PR): Thank you, Whitney. I appreciate the opportunity. Yeah, we're

WS: Honored to have you for a few segments here as we dive into a very important piece of the syndication business, right? And some would argue more important, right, our investors are so important. They do so much as far as driving our business, right? And we need them to trust us. And we want to represent them well to everybody else in our business. But we also want just to represent our team well to our investors, and that they're communicated with well, it's so important, we're gonna dive into even more of that today.

Peter, we've talked about how many times we should communicate we've talked about so even going back to the first segment COVID, and how you all up the communications, I love that even, you know, hitting the the important things, you know, instead of sending out a bunch of fluff as well, right, then also, today, you know, we're gonna jump even more into that communication, that quarterly report that you all send out, maybe even the communication on a deal, maybe a specific deal. I mean, what is included? Let's jump in there. And whichever you feel is best to start with where there's the quarterly communication and how you all do that, or a specific deal. Let's dive into some of those communications.

PR: Sure, well, let's go chronologically. I think that the first major formal communication is the offering deal, right after the presentation. And that's where it's really important to take the financial projections and turn them into a narrative. And you have to understand the sophistication of your investor base to my communications are much different with our institutional investors than they are with our individual investors. The institutional investors don't want the communication to be flowery at all. They want numbers. And that's it really, and they do their own underwriting. They do their own market research on individual investors, which I think is really the target audience of the show people starting syndication for retail investors.

I think it's important to really walk them through every of the deal explained to them, some of them might not and how IRR work, you have to explain to them what an IRR is. Explain to them exactly what the strategy is, and why you'd like to stick their strategy for value add, why are you going to be able to get a premium? Because you're putting in new washer dryers? How do you know you're gonna go to get that premium, you know, we've done our market research units of the same size or getting X dollars more per square foot with washer and dryers.

Again, you can present it all on a spreadsheet, but projects are the financial projections on spreadsheets. But unless you're able to effectively translate that into a narrative, it'll be difficult to really gain the interest of your investor base. And of course, people love maps of the areas pictures of the post Reno stack of the asset itself, we often have investors ask if they're in the area if they can go visit a property. And people would like to know that they're investing in a real asset that actually exists that isn't just on paper.

So show some pictures, I think of the amenity spaces of the interiors of the leasing office of landscaping, and really let them remind them that they are investing in a real asset that exists. That's really what differs from buying a stock or you know, some piece of paper that's floating around in account somewhere because these are real assets. And it's important to communicate that.

WS: You must translate the spreadsheet into a narrative. I like that thought and being able to do that it's true. Many people are gonna look at that spreadsheet, you know, they're more experienced, or maybe they've invested in lots of deals, and maybe even your team, right, you can look at that. You've talked about it. And if you understand what's going on, it's that retail investor, maybe this is your first investment into syndication for maybe they've done one or two, but they look at that, and they're confused. Right? And if an investor is confused, typically their answer is no. Right? You know, they don't move forward.

So who owns that, as far as you know, even that narrative and building that out and ensuring the, I assume it's investor relations team, right? But how do you all figure that out? As you go through that process? I know you are meeting twice a week, like we talked about during the last segment, but maybe walk through even creating that investor deck, you know, translating that spreadsheet well? What's that process?

PR: That process is really owned by the investor relations team. You need people who are strong writers who can effectively communicate. We can get too granular here. But if you have sentences in your presentation that don't really have any substance to them, enough of those will lose interest as an investor. You should really think of each sentence what's the purpose of this sentence? What are we doing here? Is it repetitive? Is it redundant? If it is get it out of there, you know, I saw a presentation recently from another firm and they had a section on their to transaction highlights and within the transaction highlights, they talked about the market, you know, strong job market because some big employer had moved to the area.

And I think that's a great example of what not to do transaction highlight should be transaction highlights, what is the debt looking like on this property? What are you paying for the property per door per square foot? I think it's important to really be focused and if you're not focused, you're gonna be all over the place with that communication. So transaction highlights those should be the asset summary summary of the assets market summary, what's going on in the market. I think that creating a communication of the deck is great and also have some summary pages at a glance because again, some investors will want to read every single word of your deck every single word of your correspond and others want to see a table cash on cash

return IRR length of investment. So I think it's important to have both options available.

WS: Yeah, that's, that's incredible have and had a glance segment. I like that a lot because we definitely have that as soon as some investors like which page of the deck do I need to go to to see the right even though there's a there's a table of contents right as well, they could probably figure that out. But still, they don't want to have to look through the entire thing. There's some specific things that are important to them. And we want to make it as easy as possible. Right?

Okay, so you've sent that email out to investors. Walk through, you know, are y'all calling them as well, at that time? I'd love to dive in even the capital raise process a little bit with you, but I want to focus on the communications, you know, on this segment, we're kind of exhausting this as much as we can. But anything else on the email or the communications about a specific deal that we should know about? Or hey, you know, as an operator, you need to be including these things as well. How are you doing that?

PR: Sure. I think the offering communication is three parts, your presentation deck, financial underwriting, and the email itself. And the email itself is where you really talk through the deal to a lot of tax, but it has to be done. Why do you like it? What's the strategy that might be sometimes redundant from what's in the deck, but I think that's okay. Also, I love including a table of return table that shows cash on cash return, you know, like you mentioned at a glance that they can see it. So you send that out to investors, and then you're really now you're beginning to capital raise process. You know, I think it's great for anyone, how many people are on your team to either use a Google Sheets or some way to track the equity commitment.

WS: Do you all use Google, like a Google farm? Or do you have a CRM that can do it?

PR: So we have a investor management software called IMS, which we're very happy with. But we still do use Google Sheets, just to this real time everybody has access to it. But yeah, I also, depending on the size of your company, I highly suggest getting some type of investor relations management platform, Juniper square is a great option. IMS is another. I think there's a few others out there. But it really functions as a CRM, as you create a portal for them to log into.

WS: Yeah, I'll give a shout out to Invest Next. They're a group that we've used for a number of years now. And I really liked as well. But agree could not recommend having something like that having that secure portal just kind of helps you to be at another level, right of operator for your investors.

PR: Absolutely. Yeah. And then again, being able to log into a portal makes feel a lot less transactional, like, Oh, I'm giving you money for a distribution more, I'm investing in assets that I can view anytime. I think having a portal is a great tool.

So send out that original communication, and then you'll start getting the responses. And it's important to track who's responding. Sometimes our portal actually will track who's open the email. So if somebody hasn't opened the email, maybe that warrants a phone call.

I tend to shy away from fundraising phone calls. And I'll tell you why we all sit around, and we get those spam-likely phone calls on our phones dozens of times per day. And I almost feel like a phone call to raise capital, depending on your relationship with the investor, could be somewhat of an invasion of privacy in a way. I don't want to say an invasion of privacy, but a disturbance.

The beauty of emails, they can read it on their time, late at night, and they're watching TV, they can open up the offering and take a glance at it. But a phone call is just not part of my strategy. Some people might do it unless they really have a relationship with somebody where that phone call isn't a burden. If they're just an investor, and you don't have a personal relationship with them, I would think about maybe withholding the phone call from the fundraising process.

Again, it's really important to track once you track everybody's initial, we call it like a soft limit to say, "Okay, I'm interested at 50,000, I'm interested at 250,000," whatever it is, you track all that then within that original communication, you have a commitment deadline. And then once that commitment deadline is reached, then you send out the partnership documents. And that includes your PPM your partnership agreement, which sometimes is a exhibit to the PPM

depending and your subscription agreement, then they give them a few days to review that you never want to send out those documents and then expect them to be executed the next day.

People don't like to be rushed. People want to take their time, especially again, they're investing in some cases, a lot of their personal capital. You want to be understanding that that's a big commitment for a lot of people and give them time to read through the agreements and answer any questions they might have. And then I usually wait five to seven days later, and then send out those same documents via DocuSign for execution. And then along with that, usually wire instructions and a funding deadline.

WS: Now that's incredible. Let's jump to that quarterly report a little bit as well. I want us to be able to talk about that before we get too low on time. It's so important. We're communicating well, it's so important that our investors are up to date, which we've mentioned so many times and because it is so important, but I'd love to think through how you all create that report. You know who else is involved in that that communication as well? And maybe how ways you all have streamline that process also.

PR: Okay, definitely, you know, as we mentioned in previous segments about integrating all team members, the recon asset summary report, but quarterly report, a lot of the heavy lifting is done by the asset management team. They are the ones who know exactly what's going on the property. So they are heavily involved in that The draft quite a bit of it and the quarterly report, whatever you want to call, it really is your chance to update investigators on what's going on kind of go into detail on any budget variances, there will inevitably be budget variances to pro forma things happen. Nobody's ever exactly on the dollar when when they're sending out their original pro forma.

So explaining what's caused those variances positive and negative? I think it's an opportunity, and what are we doing to correct the negative variances? Also, if it's a value add, you know, that's a lot of our business. So I keep mentioning value add, but if it's a value add strategy, how many units have you renovated? What is the premium you're getting on those units? And hopefully, that's a positive item to correspond, and they're happy with the increase in rents, but

how are you executing the strategy? And ultimately, how is cash flow impacted?

And also, on those reports, I think it's important to have, again, similar to the original offering some kind of summary page, a page that for the people who live very busy lives, they can look down one page and see what's going on with the property. And then for the rest of them, rest of investors if they want, they can delve deep into the details in the following pages.

WS: So have a summary section?

PR: Yes, have some sort of summary section, don't make it too wordy, something somebody can read in, you know, five minutes or under and how is cashflow has to be mentioned. Because really, in the end, that's to a lot of investors, that's the most important metric is how is cash flow impacted? Then, obviously, distributions as well. We distribute here at Interwest on a quarterly basis. So that is where we discuss distributions as well.

WS: Okay, that's great. So you talked about, you know, the asset management team plays a large role, right? And coming up with that content, obviously, they are in the project day to day, they can print, you know, they know this stuff, hopefully, very well, right? What's happening with those properties? And what investors need to know is there some kind of template you all use, even for them to say, hey, we want to make sure and hit these points, we know you all are talking to investors.

So we know that hey, X, Y, and Z are some of the most important things that investors want to know like what you hear the questions every day from investors, right? As you're talking to them, is there a template is there some way that you, you've kind of sped that process up so but but also a way that you're for sure you're hitting those things?

PR: Absolutely, we have a template, there's no reason to reinvent the wheel, every quarter. We use a template that we have. And we, again, there's one section of it, which is kind of the narrative of the property which changes, but even that is structured in such a way we touch on the same points each quarter.

But again, there's a large variation between properties. But we use a template, we put the same, you know, leasing stats in there with the same occupancy stats in their quarter over quarter. Because as you grow, you really want to find as many opportunities to streamline your process to make it efficient, we always say the processes will set you free, if you've got a good process, a lot of other time is freed up, I think quarterly reports is a great opportunity for you to try to build a standard process so you can turn them out quickly and efficiently.

WS: So you mentioned like the narrative of the property, maybe occupancy, the you know, those things that you're going to mention. We also talked about distributions, maybe having a summary or you know, portion is where section, anything else that's like, man, we got this section that we know we must include every month that we haven't talked?

PR: There are various part. I think, variants to perform a variance to budget, as we discussed in last session, it's your obligation to investors to tell them how are we off course? Are we ahead of plans? are we behind? And what are we doing fix it? Or why are we ahead? What have we done? And again, if you're ahead, that's your opportunity, kind of pat yourself on the back and say what you've done so successfully to get you ahead.

But if you're behind, what are you doing to get back on track? Or is there a course correction? And if so, what is it that's really comes in the variance report, and that's a variance to perform a variance to budget, whatever you want to call it. But again, that's believed that's one of your fundamental obligations to investors.

WS: Any thoughts? You know, we've talked about this a little bit as well, but just the communication during highs and lows. Right? And, we talked about during COVID. You all sped that communication up to monthly, which I think is it was a great move during that time. Right? When everybody's wondering what is happening, right? They need some answers and want to know. But any other examples during highs or lows? Are you reaching out? Are there times throughout the quarter even for some you know, highs as well not just lows?

PR: Absolutely. If there's a major breakthrough, it's something for instance, we have a property

in Phoenix. I think I mentioned it before, but we've there's some major Intel is building a multibillion dollar investment in a chip factory in that area. That's news that investors want to hear. That's a great opportunity if there's some new development in the area extension of a medical center nearby. If you're in an area with the large hospital, big employer coverage area, I would say absolutely send that out to investors. That's great stuff that they want to hear, you know, that kind of stuff, you know, brighten somebody's day, they invest in the property and all of a sudden, local employers adding 10,000 new jobs.

WS: You talked about earlier how somebody needs to be a strong writer on the investor relations team. Well how strong of a writer? How much importance do you all put on that essay grammar versus substance? I've had other people asked me this. And it may seem silly, but I know people are wondering, "Hey, maybe I'm not a great writer, should I maybe write the report and send it to some kind of writer or editor?" You know, how much do you all put on that as important?

PR: Well, I'll also say I never send out a correspondence that is of substance to multiple investors without having somebody else read it over. It doesn't matter who it is in your office, send it to somebody and let them say any feedback is appreciated. You will be amazed at the small tweak somebody else who's removed from the actual writing process and the valuable feedback that can give you.

You can say, you can deliver a message in five sentences. But often that same message can be delivered in one well written sentence. And I think we kind of it's kind of an a theme, I think of these segments. But you know, you don't want to lose investors attention, especially with offerings, but also in the quarter reports, you really need to think about, do you have to be a strong writer? No, you can be a very direct writer. But what you don't want to do is be an overly fluffy ornate writer that loses the attention of their audience, I would say if you're not a strong writer, be direct.

WS: What about deadlines for other team members to get you this information? You know, as you as you know, this is coming up? Do you all have something in like Asana or monday.com,

or some kind of task software where it's like, everybody knows we need these things.

PR: That's funny. We actually just rolled out monday.com A few weeks ago, we were really enjoying it. You know, that's a great kind of management tool. Yes, we have deadlines. When it comes to institutional investors, it is extremely important that you don't miss deadlines. It's almost sometimes, more importantly, don't miss deadlines and the content of the correspondence.

So yes, we have a process in-house that where information is relayed. And I think it's very important to set that up to great point that you should have internal systems that whatever comes from asset management to investor relations, or vice versa, there should be deadlines. And they should be I mean, I'm a firm believer in deadlines. But some people are a little bit looser about it.

Again, I think goes back to you know, your professionalism. If you tell investors, you're going to have a report and a distribution out 45 days after the quarter ends, it should be 45 days after the quarter out of 46. But again, some people might argue with me and say, oh, you know, no one really cares to stay late. I think that that's what separates sometimes like a great operator from a middle of the pack.

WS: Yeah, I agree. I know, there's investors that like, they'll email it will say it's gonna come out on this day. Well, at 10am, they might email us and say, Hey, where's this?

PR: Exactly. And you'd rather get ahead of that, than have to answer another question. If the answer wears it out.

WS: That's right. We may have planned for it to come out at noon. But hey, they're already emailing. And, you know, it kind of looks like we get it out on time or, you know, something like that. So what about videos? Have y'all ever tried any kind of video update?

PR: We haven't. I know, a lot of lot of people have been very successful with them. But we

have not, no. Do you guys use videos?

WS: We just started but we're trying to do some video updates. And so it's a whole another process that you know, that has to be created. There's the the editing and all that stuff and when they need to be done and who does them and but we've received some some good feedback, as far as some investors really liked them. It allows that individual and our team, it was our management company in our head there who has that knowledge, right? And we're on the asset management side, he can elaborate a little more loosely through conversation, even through video, recorded video versus typing it out. Right. And so, you know, allowed him to just provide some more color to a few specific things. So we're still testing that a little bit to see if that's our investors or not. I want to jump to a few final questions, Peter, and what's your all's best source for meeting new investors right now?

PR: So really an organic process. You know, we try to write some articles that gets published in newsletters, we reach out to a lot of wealth managers, they've been a good source accounting firms are good source who have accounting advisory firms.

WS: How do you build that relationship with them so they're like referring investors to you?

PR: Sure. And that's the secret sauce there. But it's, you know, it's really presenting yourself to RIA, registered investment advisor, wealth manager, you need to build credibility right off the bat, they will not refer you to their clients if you can't prove credibility. And we've done that here at Interwest Capital, getting a third party accounting firm, basically audit our returns over the last, I think, almost 20 years now. And it was a (inaudible) process.

But we now can say, "Look, you have a third-party accounting firm confirming our return." That gives us credibility because a lot of those wealth managers or investment advisors or accounting firms, they have a fiduciary responsibility to their clients, not to put them in a bad investment. And they don't have a lot to gain. They're especially if they're not most of them won't take a fee. If they're true fiduciary, they won't take a fee, so they don't have a lot to gain.

So you got to think what's your value proposition to them. Are you increasing their AUM, which we you are and that's kind of what we offer your clients this alternative investments, and we believe that it's a great tool to increase your AUM and that's usually what they build off of. A lot of some, of them will have you fill out a DDQ a Due Diligence Questionnaire, those can range from being one-page long, 40 pages long and can really be in depth documents that might want background check principles. Again, they're really just covering themselves and crossing the T's and dotting their eyes to make sure they're not putting their clients in a bad investment, which I wholeheartedly appreciate.

WS: Yeah, that's interesting, you brought up numerous things there. And I'd love to dive into some of that even more. But you know, you're getting audited by third party accounting firm, I could see how that could even add some, bolster that right to investors that in them just feel more comfortable, right, knowing that you're at that level of detail and having that done.

And maybe we can have you back and talk a little more about that. having that, and also how you communicate that to investors, and maybe even a little more about the capital race process, but speak to any daily habits that you have, that have produced the highest return for you?

PR: My favorite part of my job is really digging into new investments and learning the story of them. And that produces incredible value. Because when you understand every aspect of a new investment, and you can effectively communicate that to investors, and they can ask you any question and you have the answer, it really increases the chances and investment size that they're willing to put in, you know, an investor who's going to put in 100,000 has a couple questions, you answer them effectively, they might up their investment size to 150 200.

So I really think understanding the investment. And again, I touched on this a few times the responsibility we have for investors. if we're presenting a deal, and we're suggesting that they should invest in it, you should know every aspect of it. It's kind of your obligation. Otherwise, I think it's extremely important. And it's your responsibility to know everything. And I love it. I love learning about new deals new properties, and new markets, here in the West, we don't

have an in-house management company. So we actually can look at almost any market in the country. And we you know, we hire the best, you know, local operator, best in market operator. But because of that, I get to look at Chattanooga, Jacksonville, Houston, Austin, Vegas, Salt Lake City, I get to look at all these markets might not have an infrastructure. And for me, I really enjoy that I really love learning the individual dynamics of each market.

WS: Peter, how do you like to give back?

PR: Right now we are I've kind of spearheaded this as one of my other colleagues, we're doing a big ESG Initiative, where we are really focusing, especially here in the southwest of how to make art we are just rolled out a policy a few weeks ago called our water first policy, and how to make our properties are more drought resistant and lower our consumption of water in the environment. Frankly, Whitney is probably the most important thing to me.

I think that we got one shot at this, and I don't know how well we're doing. But I think that it's all of our obligation to try to reduce our impact on the environment. And through our you know, the E portion of ESG is our environmental impact. And it's something that really has stricken a chord with me. And we are working on a few dozen different initiatives that we approach every deal with and these initiatives are given to our acquisitions team.

And before when they present a deal, they talked about market dynamics, they talked about our renovation strategies, but now they are also listing different environmental initiatives that we're gonna roll out at each property. And to me, that's really important.

WS: Awesome, Peter, I'm grateful for just how you've given back so much time to us and the listeners over the few segments that we've recorded. You know, we've gone into so much detail about investor communication, and it is so important. It's such an important part of our business and any real estate investment business or any investment business really, that we communicate. Well, I'm just grateful for your time and for laying all that out. Tell the listeners how they can get in touch with you once again.

PR: Absolutely, Whitney, thank you. It's been a pleasure. My name is Peter Richter. I'm the director of investor relations at Interwest Capital. You can reach me at peter@interwestcapital.com.

[END OF INTERVIEW]

[OUTRO]

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