EPISODE 1441

[INTRODUCTION]

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today we have packed a few different shows together that we call highlights to help you to get the most bang for your time in educating you on the topics that you want to learn from. We would love to hear from you. I am grateful that you are with us today. Have a blessed day.

[INTERVIEW 1]

David Robinson (DR): Our guest is Melanie McDaniel. Melanie, welcome to the show. I appreciate you coming on.

Melanie McDaniel (MM) I: Yeah, thank you so much. Happy to be here.

DR: So, when you decided, "Hey, I want to focus on this aspect of the business on the capital side, bringing equity to these deals and being the connector between passive investors and quality operators," how did you go about executing on that, what were the steps that you took to achieve what you've done today?

MM: I think it all started, at least with knowing that I never wanna lose investor money, right? I take it very seriously. When you take somebody's hard-earned money to invest it in a deal, it's a huge task, and I don't take it lightly. So, I started knowing that I needed to have a really good underwriter, 'cause I'm not. I said that I don't like it, I don't want to. But the underwriting, I think is the piece where you can't cut corners. And, for people who are new and they are self-proclaimed underwriters, they don't know what they don't know. They might think they're good, but when you're in the business and you've seen things happen, and it just takes a certain set of skills.

So early on, I knew I needed to have an institutional grade underwriter on my team, because I feel like that's the first line of defense to not lose investor money besides the operator themselves, not just their track record and their experience and everything that's important, but who are they at the core? What are their morals and values, and if a deal is going south, did they shut down, clam up, go quiet, or do they communicate that they pay their last petty refinance of our house to pay off investors? Or are they just gonna be, "Oops, sorry, you knew it was risky. Peace out!" And roll out. I try to get to the human, the jockey, go for the jockey, not worry about the horse track, whatever." If you have a good jockey that you're gonna have a good horse, you're gonna have a good track. So jockey and underwriting are kind of equally

the two I look at. So, I don't know what may hone into that, except at the beginning of all of this, I knew how important it was to make sure I just don't ever lose anybody's money.

DR: Yeah. Well, it's critical, right? You have to be a steward of that. And it's critically important, right? You won't be in business for very long if you start losing investor money. Maybe what we could do is talk about your first deal that you worked on that was outside of the 24-unit where you were in this capacity of capital raiser. And walk us through that briefly. How did that come about?

MM: The 24-unit, we closed early 2020, and then I launched Freestyle Capital Group in early 2020, right before the Best Ever Conference I came to. I was in Thailand when I put the website in business together, a launch for Thailand, came home to go to the Best Ever conference and then Covid, of course, it shortly after. And I had planned to be abroad most of the year, but I ended up staying domestic so I sat on the sidelines and I was pretty quiet for about six months 'cause I really didn't know what to tell people. I wasn't even confident that multifamily was still the best investment in the world. So my newsletter to people said, “Hey guys, hope you’re all doing well, sitting on the sideline, just watching all this play out,” and that was it, that's what I said for six months.

And then I started seeing some of my favorite operators buying deals, so I thought, “Okay, I respect these dudes, these are the guys I wanna raise capital for, they're buying deals, but a couple of them did a deal and they didn't call me,” so I’m like, “Yeah, Hey, remember me? And I was gonna raise capital or you some running,” and they're like, “Oh, we're good on this one building,” and I'm like, “Okay, yeah.” Then those two same operators each had another deal and they're like, “Oh, hey, guys, yeah, I get in.”

Anyway, I had to put all my eggs in the basket of three operators. And then I realized I need 100 operators because I need options, and I need to do research and I need different operators 'cause these guys are getting too big for me to participate, especially as a new capital raiser.

So, even though covid sucks, it was also a 10x, 100x for my business, because everything went virtual. I could go to meet-ups across the nation, I go to conferences, and I never would have been able to go to. I was a networking beast, I was known as the network Queen, everyone knew me just about the meet-ups I would go to, at least in the spaces that I was going to regularly. And I'm getting to your question.

So from July to July, July of 2020 to the July of this year, is how long it took me to find a deal to raise capital for. And it was not without opportunity. I had many people ask me, and when I looked at the operator, the underwriting, the deal structure, the market, something told me no.

So, it's a year and a half journey before I did my first deal as a capital partner, just to put it out there, it takes time.

So, the first deal I did, and three happened almost at the same time. The first one was an apartment complex in San Antonio, the operators didn't want another co-GP, so I often do the SPB, single-purpose entity in the fund brought in other capital partners, so we could bring a million to the deal as an LP. So that was my first deal and that operator, it took months and months of a relationship with that person in that group before I felt comfortable doing a deal, and when they sent in a deal, it was underwritten well, there were some things I liked, but other things I liked a lot. So yeah, it worked out, but to answer your question, it's real relationships with real people, and by the time they had a deal, they came to me and said, “We want you to raise capital for us.” So yeah, it just took a long time. It's the relationships, it's being consistent, being persistent, knowing your stuff, don't be an impostor, truly know what you're doing, and partner with strong operators or strong partners, depending on what job you have on the GP.

DR: And I think on that first deal in San Antonio bringing a million dollars to that deal, through the special purpose fund, there's a ton of work that went into getting to that point where you had enough investors to bring a million dollars into that deal. They trusted you to invest in your fund and ultimately invest in the deal.

So, what were some of the strategies that you implemented over that 18-month period? You did mention networking, is there any other tactic strategies that our listeners could take away and apply to their business to help them get to a place where they could confidently go into their next deal, whether that's six months, 12 months or 18 months down the road, and have confidence that they can bring some value to the table from a capital raising perspective?

MM: Yeah, so a lot of people ask, where do you find your investors? Right, so I think that's kind of what you're asking. Honestly, most of my investors came from when I was a real estate agent, and I had that made up, and I've just built a lot of relationships in Virginia at the time. So, a lot of my investors were military officers that would come to my meet-up or buy properties or flip properties. And then, many came from all the networking I did during Covid times, people I've met at conferences, I think a couple trickle in, like Instagram or something. But at the end of the day, they were all people I knew, my CPA’s boss, he's the only one I didn't really know, but we're in the same circle.

It's just real relationships with real people. I have a YouTube channel, I have a website, I have on social media, I'm somebody active on there and very consistent, which is huge, consistent and persistent by the way, and those the two key words to take away today, be consistent. But just real relationships. So, if someone is sitting there, they don't know anybody, or they think they don't know anybody, and they're gonna build this big platform, good for you, if you start a

podcast just ask Whitney and just ask you, it's a job. You've created a job for yourself. And if you love it, amazing, but if you get a year into a podcast and you're like, “Man, I just don't like this anymore, sorry, you're enslaved for that podcast,” I could be enslaved my YouTube channel, I just gotta stop making videos and realize that's a fair point for me, I'm probably gonna end it, probably gonna stop doing it because I don't enjoy it.

But you know what I do enjoy and where I get a lot of investors from is networking, going to conferences. I spend a lot of money and time now that we're back in person, I fly around and I spend a lot of money going to conferences. But I may meet one or two investors every time, and that makes it all worth it.

[INTERVIEW 2]

Whitney Sewell (WS): Our guest is Peter Halm. Peter, also known as the Deal Hunta, Halm is president of Vineyard Investment Partners, where he is responsible for finding investment opportunities and forging strategic partnerships. Together with his wife and partner Monick, they bring groups of investors together to purchase commercial property. Their specialty is working with investors and raising capital. But something happened recently in their businesses - switching asset classes. The pandemic changed the way they looked at some specific asset classes that they were in. Peter goes into that in some detail today. I know that's going to be useful to you. Or maybe to think about what asset classes you have in your portfolio as an operator or an investor. Also, we go into some capital raising techniques, tools, things you might want to think about, or best practices, even some mistakes. There’s specifically one mistake he brought out that I feel was just crucial to anyone or anybody in this business that's working with investors should know. Anyway, I know you are going to learn a lot today. Enjoy the show.

Since capital raising is your specialty, I want to lean on that some more. What you just said around making that shift in asset classes like that, how was that presented to investors? What was their take? Was there a big pushback? How did you all warm them up to that idea?

Peter Halm (PH): Yeah, that's a great question. It was a tough one. A lot of people, we send out a little first look at a potential deal. And we got responses like: “Yeah, I'm not comfortable”, “I like multifamily”, “I’m not really comfortable in doing something like that”. And then we had other people who were like: “Okay, well, tell us more”, “Can you explain?”. So once people heard what triple net was, they loved it! So, triple net. “Okay, you mean that the owner of the property is not responsible for property taxes, insurance, maintenance, repairs, anything like that? So, it's like, “Okay, so what then does the owner have to look after?”

PH: Well, debt service. Once people heard that, they realize that, right, there are all these safeguards in there. And they were seeing what was happening with multifamily at the time, and they said, “Okay, well, this sounds really interesting. Tell us more.”

WS: Do you find that they want to get in, say, just a little bit and then grow over time? Did they test the waters? Was it like, “No”? Or maybe, “You have educated me and I'm just willing to jump right in”.

PH: Yeah. I think most people wanted to jump in at the minimum. And there were some people who are like, “Hey, whatever, you've been good with us so far, we'll just throw it in”. But I think more people were cautious. They wanted to test the waters first. But I think that's the same with any capital-raiser, syndicator, or sponsor. It's like a whole learning period. Then a lot of people will tell you, “Oh, I've only got this much”, but somewhere along the line, someone will let out, they're probably sitting on millions of millions, but they're just testing you.

WS: Yeah, no doubt about it. I've seen that happen personally many times with many other people. So, you're capital raising. I want to dive into that a little bit. I mean, this is your specialty. Maybe we can start with some tools, things that you have learned that work best for you all. Then maybe we can jump into some best practices as well.

PH: We make sure that we have a personal relationship with investors. Well, some of our raises are for accredited only, 506(c), and some of them are for everyone. We make sure we have some kind of relationship. And for us, it's like, you know, we don't really care if you get into this one relationship, we’ll always find another investor. But we want you to feel comfortable, and we want you to feel comfortable so you can be a repeat investor. So for us, it's all about making the investor feel really comfortable. And this is a really interesting thing. We like to do this with investors, we like to understand their personalities, so we can speak to them. We use a system called *bank code, B-A-N-K*. You go to the website, *bankcode.com*.

What happens is someone does a really quick personality test, and we can then tell whether they are a B for Blueprint. Kind of like the accountant numbers type. They just want to crunch numbers. Then, A for Action, whether the action person is someone who's like - we don't care about the details, just get to the point, just give us the bottom line. Then, there's N for Nurture. A nurture (personality) is somebody who loves doing stuff in the community with people where everyone wins. So, they're more about having a relationship with you and they want to see that the property is doing things for its tenants in the community. And then, there is K, the last letter, which is Knowledge. They are the people who want to deep dive into research. So, when someone tells us the first letter that comes up is Knowledge, it's like, okay, so here's the offering memorandum. And here's all the information on the market. Here are the rent rolls, you can go through everything. You can spend your time, and they're very happy to go away and spend hours and hours and hours just getting that knowledge. Then, when they feel comfortable, if they do, they come back to you and say, “We want to invest.” The action people are like, we know that if we send all that stuff over, they'd be like, “Okay, this is just too confusing to me. I'm moving on to something else.” So we kind of get an understanding of the investor’s personality code when it comes to how they operate and money and all that. And then we act accordingly.

WS: I think it's so interesting, I don't think I've ever heard anyone talk about having investors complete a personality test. I think that's so neat that you can understand a little more about how they think and you can adjust accordingly. Because exactly what you just said, say you're talking to an engineer. Right away, they want to see the numbers. They want to see the details. I've got somebody else to help in the morning, like analyzing every number. And then there's some, if you send that to them, as you said, it will just scare them to death. They'll be just like, "No, I trust you all". I want them to see it, but some of them are just like, "that's just too much information. This is all I want." Right?

PH: Yeah, I've lost investors on calls where I just went into details. And they're like, you can probably see them looking at their watch going, "This isn't for me. I'm not feeling this." And they just want to get off the call and go.

WS: Tell me a little bit about administering that personality test. How does that come into the workflow? How do you get investors to complete something like that? What's the time commitment for them?

PH: It's really quick. Two things, number one, I can usually pick in the first couple of minutes what someone is. Like, I'll know what their number one code is. For instance, they tell me, "I'm an accountant and I got a degree in statistics and I love my work." So, it's kind of like they're telling you what they love, what they want. Then the second thing might be like, "I invest with my wife and my wife kinda likes this and that." And so, I kind of get a feel. But, what we have been doing, I haven't done lately. But, I want to do it more. Send them the link to go and get their bank code, and you get it in 90 seconds. We have a little account there so we get the results. And I'll get the results before I get on the phone with them.

WS: That's neat. What other tools do you find useful? Whether it's something like that or something administratively in-house or anything that would be helpful for somebody that's trying to do the same thing.

PH: I just like you to know that Monick and I, we have been approached by a lot of couples who said, "You guys work together in real estate investing, how do you do it? We just get together, we tear our hair apart, and stop". We've got to figure out ways to help couples. Because when anyone's ever making a financial decision to invest with you and they're with someone, usually they have to get the approval of the partner otherwise, they're (unintelligible).

So we also have other techniques. There is a couple, Taylor and Megan Kovar, they're called The Money Couple. They have this thing called Five Money Personalities, and we've started implementing that as well. So, we like to see how people operate in terms of their personalities interacting with other people. This is specifically on money. The first one is someone who loves to spend, then someone who loves to save, and then someone who's into risk just for risk, and there's someone who wants security, and then there's a person who basically doesn't care about money, it just doesn't even come into their thoughts. So, we're using that as well, more and more.

WS: That would be great to know about your spouse. Those things right there.

PH: Oh, absolutely! It's kind of mind-opening when you find out like, "oh, I thought, hmm, huh…". So, it helps you to be able to talk not only to your spouse or your partner, and that could be a business partner too. It also helps you when you're talking to investors to find out where they're coming from, what their needs are, and the way they operate because ultimately, as a capital-raiser sponsor, we are here to meet the needs of our investors.

WS: No doubt about it. Yeah, as you said, that'd be great to know about investors as well. Any other best practices that you would share with somebody that's getting charted into this industry? Maybe even those that have been doing it for a while. Like, "you know what, we do this every month for our investors or every quarter or whatever", that they've just loved and wanted to come back to invest more because of this thing?

PH: For us, the number one thing has always been communication. We try to send out newsletters for every investment every month. And most of our investments actually were given distributions monthly, so it kind of comes out together. The issue has been where we're working with partners and the partners on the same level of communication with us. So, we're having to say, "We need the numbers, what's going on? You're on the ground, you're dealing with property managers or tenants or whatever, we need this information to give our investors." Sometimes, we find that we are on the same page and we're just trying to get information to pass it on and we're just not getting it. But, yeah, communication for us is key, it is number one.

Giving the good, the bad, and the ugly. It's tough when you have to say that this investment right now is not going well. It's really, really tough. But you kind of swallow and go like, "Okay, this didn't go well. This quarter or this month, we're working on this, this and this. But right now, this isn't going well", and investors appreciate it.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

[END]