EPISODE 1521

[INTRODUCTION]

Tom Burns (TB): I think everybody needs to keep their eyes open and not have blinders and always look at other asset classes. Multifamily is one of them that I think a worthwhile thing to look at.

Whitney Sewell (WS): This is your daily real estate syndication show. I'm your host, Whitney Sewell. Our guest Tom Burns is back with us again today. He's an entrepreneur, retired orthopedic surgeon, physician, and physician for the United States ski team. He's also been a real estate 25 years, and a physician for 30 years. He's done a lot of things in real estate. And we hope that you listened to yesterday and got more of his background, and also just diving into that transition from physician to real estate, and how he did them both at the same time. I know you learned a lot from him yesterday.

Today, we're gonna dive in more into multifamily, specifically, why multifamily and how he feels about the economy and how that's changing maybe how they are looking at deals, and even how he looks at investing passively. We talked about have been prepared for the downturn, which you know, I like to ask about if you've been listening to the show, how are other people being prepared. And then compare, obviously, what we're doing, also, but I like to know how passive investors and other operators are ensuring that they're prepared for a recession. And you're going to hear that from Tom today.

[INTERVIEW]

WS: Tom, welcome back to the show, honored to have you back. And I'm very grateful for your time I know yesterday, and we dove into your background and getting started in real estate as a physician and really the training that took place where you observed other people that and you thought you wanted to be that but you discovered pretty quickly, maybe that wasn't the path that was best for you and your family as a whole.

I'm so grateful just for your perspective on family versus making another dollar because that's not typical of learning anyway. And so I've just appreciated that and just you being transparent, real about that. So I encourage the listeners to go back and listen to yesterday's shows. You're gonna learn a lot about Tom. But I want us to dive in today and really more about multifamily and more about your business, Tom, and focusing in on multifamily and how you grew in this subject or in this asset class specifically. Let's dive in there.

TB: You bet. You bet. I'm all yours.

WS: Oh, let's do that multifamily. I mean, why multifamily, Tom? I think you're in a number of things. Right? Or you've invested in lots of different things very experienced investor, but why multifamily specifically, or maybe like some other asset classes just as much?

TB: Yeah, so my story is long. And I'll just keep it short. So, you know, as we talked about before, I started with single-student condos that grew and complexes, bought other things at the time, I didn't care what I bought, be honest with you, I just wanted it to be an asset that produced some kind of passive income.

So most of the time, that was real estate, sometimes it wasn't, as you're in the market, you start developing partners. And I actually went and got a mentor, because I felt that I'd hit a ceiling. And this relates to what I only want a boss. I'd hit a ceiling. I wanted to learn. This guy was a developer. We were friends. And I worked for him for 18 months for free. While I was a doctor canceling afternoon office again, foregoing more income so that I could learn and then get paid. We just did a lot of land deals, build the suits, bank franchises, things like that.

But out of that came a deal where he and I built a very large, pretty large 155,000 square foot medical office complex. So he and I on that to this day. That was one thing. What happens though, is when you're in the market, buying condos, you're building an office complex, people start to realize you're there they want to partner. And over time, I met another gentleman that we really meshed well together. We knew each other for four or five years, he had met me. I was actually speaking in another state. He met me at the break and they moved to Austin and we became friends. He's my current partner.

So, we decided back in the mid 2000s, we thought that he had expertise in retail and development, things like that. I'd expertise in manufactured homes, office development, student condos, things like that bad experience with multifamily. And I didn't know what I was doing. We rolled all that together. And we felt that we should focus and we thought that multifamily built or bought right did well through recessions was a good product. And so we started to focus on that.

So, that whole story is what brought us to multifamily. And so, we developed our first project, started in 2008, 2009. And so that was which, as everybody knows, maybe not the best time in the world to start. But we had to keep going. So we started there. And that's why we have stuck with multifamily. We enjoy it. It does a good job during recessions if you build or buy it right. And we've gotten pretty good at it by now.

WS: I was going to ask about mentorship or finding somebody that's been doing this, you know, that's ahead of you. I encourage that often on the show as well. I did that and I was hesitant in the beginning. I remember I've shared this on the show numerous times. But my first mentor was like 1$12,500. And at the time my wife and I was like, "Oh my goodness, should we spend? Can we do this? It's more money we spent on anything in our lives at that time, so should we do this?" But it was the best 12 and a half grand we've ever spent.

And now, I've had numerous mentors in so many aspects of my life and I just can't imagine not doing it that way. You know, being connected to these people who are ahead of me and learning and bypassing many downfalls that I know would have happened otherwise.

So speak to, you know, working 18 months for free. I always love highlighting that because I get so much resistance from people when I suggest something like that. It's like, you're a physician, you could have been working those hours making a very good income. Right? But you saw the long-term picture here, right? You saw the long-term vision of learning and the return on that education. Right? And so for 18 months, at 18 months at that, is that when you all partnered and y'all created sounds like maybe more of a partnership moving forward versus a mentor-mentee type relationship?

TB: Yeah, absolutely. And you know, he didn't charge me because he first looked at me and goes, "You don't need this. You're rich doctor." And I said, "Teach me anyway." And so, while I didn't pay him, I still paid for it. I didn't make income because I was working with him. But yeah, it was just his luck or whatever. It's something just came to us. It was actually his dressmakers' wife ior his mother's dressmaker, something, you know, had had a piece of land she couldn't, didn't know what to do with.

So yeah, we became partners. And we each contributed our expertise. And I learned a ton from him during that process. I learned how to develop an office complex, not just an office building, like eight buildings. And so ,you hit it right on the hand, you talked about mentors, you know, letting you skip the mistakes and speed through all the difficulties. Although mistakes are great teachers. Mistakes are awesome teachers. It's a lot more fun to learn from somebody else's mistake, it hurts a lot less.

Yeah, you really want to work. You want to learn from, work from, get the mindset of somebody it's been worth that is has been where you want to go. It's always an investment that pays multiple times the investment that you make, it's not a cost. It's an investment. And so I've had so many mentors, some of them unofficial, some official. Whitney, I spend a quarter of a million dollars on coaching masterminds and mentors each year myself. So you know, the numbers just rise as you, I probably just need more help now. That's probably why I'm spending so much but can't be without having a mentor.

WS: Yeah, no, I appreciate you sharing that because I think it makes it real to those that are listening. I talked about that $12,500. And, I also have many mentors who are beneficial as well. I feel like I couldn't make it without them. I'm also spending more than most people's annual salary now on mentorships, and different people that are, you know, helping us as a company. And so, I couldn't recommend it enough. I know you are in a number of types of investments, short-term, long-term. How do you look at that for your portfolio now, you know, short-term, long-term and maybe even development or other types of investments?

TB: Yeah, you bet. So you know what, my focus was pretty narrow. When I started, I go back to Robert Kiyosaki, his book, he has the income statement and balance sheet, he has this little boxes, right? Income box, expense box, and then asset liabilities. My whole business plan was to put stuff in the asset box, because it created income, a really focused on very much a cash flow guy. I passed over, you know, capital gains type mechanisms.

But, how that worked for me was it took me longer. It was a fairly logarithmic change, when you know, the law of compounding starts to work over time. But eventually, I had enough passive income to cover my expenses. I kept working as a doc because it was fun. Over time that I had the freedom to choose what I wanted to do. And so, then you can even keep hitting singles like that. But you can also you know, you can swing for the fences once in a while, you can try to hit a double.

So, I would look at some short-term options. I did some lending for builders that needed that lot sales, things like that, some capital gains plays that some don't make it right? You do some early stage investment, some don't make it, some do. But I had the freedom too if that money was gonna get lost, I had the passive income that was going to cover that.

So, I have expanded a bit. I'm certainly it's not all in real estate. It's not all cash flow. And it is a combination of short-term and long-term. Also, as you get seasoned, I still think I'm good. I'm gonna live to 100 and something so, as you get a little more seasoned, your time horizons do shrink a little bit, but I try to keep it all pretty balanced.

WS: Yeah, that's incredible. And my grandfather just passed a few weeks ago, he's 102 years old and still lived at home and so yeah, it's incredible. It's like he had a whole another lifetime than most people more we think about it but absolutely, absolutely. It's incredible.

Well, speak to, you know, do you feel like multifamily is still a good inflation hedge? Maybe you can speak to the current economic crisis and how you feel about that. We can dive into that a little bit.

TB: Yeah, you bet. I always try not to be a homer you know, multifamily said it's all that and everything. I still think it has a good runway. We're currently 600,000 units down in the US. And we still need 4 million housing units between now and 2035. So there's a need, right? So you can still make money or create a good investment with multifamily.

Now those 600,000 units, you can't necessarily, you can't just plop a unit, plop a complex down in Chicago or Detroit or Peoria, Illinois. You got to pick the right places. So again, built or bought right. So if you pick the right area to build, or you pick the right area to buy, most of us know where those are, it's, you know, Texas is the center of the universe. But Florida, the Sunbelt, Colorado, Idaho, there's a lot of really great places.

So, we have stayed the course. Our pencils are a little sharper than they were before. We had quite a big pipeline and Q1 of this year and did like the way the economy was going. We squished that pipeline down. We cancelled some deals just to make sure that we did the best of the best, but people need a place to live.

If we go into some sort of recession, it will crimp everything. And you know, people will get rid instead of living by themselves. They'll get roommates and moved back with mom and dad, when you don't have a job. You don't rent apartments, that kind of stuff happens.

So I think on the good side, we have plenty of demand for limited supply that is going to take years to satisfy if ever that's a lot of units to get built on the other side, really got to plan for worst case scenarios, do sensitivity tables, low leverage, low projected returns, and you know hope that things are better than you project. You want to know how bad can things get, and I can still keep my property.

Because when times are bad, it's not fun to not distribute profits. But it is fun to keep your property and just tell your investors, "Hey, we're not going to distribute profit, because we need everything to keep the property, but the property is holding itself up." And the tenants are paying our loan down. And when things get good, that's when those properties just rock it out of the gate and make a lot of profits. So, I was probably talking about two sides of my mouth, but I still do like multifamily. I think everybody needs to keep their eyes open and not have blinders and always look at other asset classes. Multifamily is one of them that I think worthwhile thing to look at.

WS: For sure. No doubt about it. And now I appreciate you elaborating. Do you have any? And it's just predictions, right? But do you have any predictions for the real estate market over the next six to 12 months? Or, you know, maybe how these predictions have changed what you all are trying to buy or when to buy things like ourselves?

TB: Yeah, my crystal balls remains cloudy. So I'm not smart enough to predict. But, I originally thought that given 12, 18 months and the Federal start easing, maybe that'll happen. But again, I don't know how, I don't know what's going to happen. But I think there's going to be headwinds, I think we could. You listen to his talk (inaudible) and a few people and they think we're maybe going into re

So, I think that to expect anything remotely close to what we've had would be folly. I think you need to really be conservative in your expectations. I think, as an investor, you need to be conservative. And as a sponsor, you need to project conservatism to your investors, if you beat that awesome, it's not fun to project high and produce low. So I think we're in for some issues, you know, they're gonna try to kick they whoever they are going to try to kick things down the road as long as possible, or how long government can handle these interest rates.

Because the debt clock is giant, it's trillions and trillions of dollars. So that was a lot of blabber for, I think you need to stay in, you need to stay in the market, because that's when you know, it'll change. And you need to be really prudent on your underwriting and conservative and your expectations.

WS: I know you work with a lot a number of investors now and through your mastermind, and what kind of advice do you give for beginners who are looking to invest in commercial real estate but you know, they do have the W2 or whatever, they're not looking to become an operator. But as they discover passive investing into syndications like ours or ones like you have, how do you advise them? What are some things that they need to know as they get started?

TB: Yeah, you bet. I always tell everybody first figure out why you're doing all this, you know, have a good reason why you're doing and not just to have more money. There's that because times are going to be up and down. You gotta you gotta want to be able to stay the course. You gotta get get educated. Listen to your podcasts, read some books. I mean, it is so easy to listen to or read books now that there's a limitless supply of information. And as you read general things, you'll find your niche wherever you want to learn about that's great.

As you learn that and as you listen to podcasts, you'll hear people that you connect with, and over time you can find you can find a associations, one of the biggest things is to, is to get associated with people that are moving in the same direction you are, and hopefully people that are already where you want to be networking, right? Your network is your net worth. That's what Kiyosaki always says. And I totally, totally agree with that.

So as you do all that, then you'll start getting deal flow. And, you know, if you've got money deals are gonna find you, those are gonna be good deals and bad deals, they'll both find you equally, and they wear the same clothes often. So you want to be supported with a community that will help you evaluate these deals, try not to be the Lone Ranger have somebody you know, if the listeners if you get a deal, get Whitney to look at it, he seen a jillion deals get somebody to oversee it and say, you know, this is maybe a little rich for the sponsor, maybe they're expecting a little bit much or Jesus looks like a good deal.

Because, you know, if you're investing passively, you're investing in your you're counting on somebody else's ethics, their network, their experience. And you're going to provide your capital, so that the two of you and they're going to provide their experience, you're going to make a profit, be nice to somebody you can trust. Bernie Madoff had a lot of friends for 20 years.

And so, things didn't go so well. So, you want to potentially invest with people that you know, and trust, that are friends of yours, they will have maybe invested with somebody else to try to get him with sponsors that you that, you know, also suggest these days, maybe try to find one with some gray hair that maybe did, maybe did investments prior to the Great Recession, because recessions, depressions and bad times are awesome teachers. And a lot of times people that have been through that have a little can see a little farther over the horizon than folks that have only seen good times. So, you know, be prudent.

And you know, if you're not sure, and you've done all those things, bet small. If you bet small, you know, if you're winning gray, you're winning small, but if you lose, you lose small too. So once you get in, then you'll start knowing what's a good good investment. So as your education grows, so can your investment and so will your passive income.

WS: Some great advice to say the least. You mentioned, Tom, about depending on their network ethics experience? Where do you put the most weight when you're looking to partner with an operator or invest passively? Maybe how you assess that a little bit?

TB: You know, honestly, I go to ethics first. So, if it's somebody that didn't know, they would have to come from a really trusted experienced friend because I don't want to lose money. I don't like to lose money. I'm just pretty good at it. Right? I've done it a bunch.

But, if I'm gonna lose money, I want it to be the market and factors that we can't control. I don't want it to be a crook. That has happened to me. So I put ethics first and then experience next. And then I look at the deal. I have a filter that I teach the folks in my in my masterminds, people deals, money structure rules.

And so, you know, if most of those things fit out, they're good people, the deals pretty good, structure is fair to both sides, and everything fits right then it's a good investment. So I just want to make sure it's somebody that's out there working with my money as if it was their money.

WS: Yeah, a lot of that very well said. I agree completely. It's the operator comes before the deal. Yeah. It didn't matter how good the deal is if you're working with a crook, does it?

TB: Warren Buffett said you can't do good deal with the bad guy.

WS: Yeah. Yeah. No doubt about it. Well, as we come to a close on this segment of the show, what about anything else you would leave with passive investors as far as getting started or growing their portfolio passively, or even managing the investments? Even somebody maybe they've invested in a dozen deals? How do you advise, how do I keep up with all these right? How do I ensure what's happening is happening what they said there? You know, we're gonna do how do you manage all that now?

TB: Yeah, and you know, I've mostly been on the sponsor side but I there's plenty of time plenty of passive investments as well. It's sometimes you get tired of being the general all the time I just want to be a foot soldier. So invest it helps guys see all of it on my I have a very involved financial statement that feeds into one primary one, and I see them all there, but what a lot of folks do is just create spreadsheet, you know, bombs investment, here's how much I invested. Here's the cash flow today and you can you know, you can lay it out the cash flow year by year, you lay out the terms of the cash flow. Here's Tom's dealers, Whitney's dealers, Joe's deal, get them all in one place, because it's it's nice when you start to compare. It gives you the ability to compare what's going on, and you might gravitate more to Whitney and you might gravitate more to Joe to do more deals with them.

Just be like your money growing comfortably or you can sleep at night, knowing that you gotta go hopefully that whole list is good sponsors because you pick them well, and you've really met some good people. returns will vary. But yeah, I'd put them on a sheet and you know, schedule a time once a month to just kind of look over everything and do a slightly deeper dive, read your reports, you know, people usually send out quarterly reports, read those, see what's going on. You know, I had one once, where we get a quarterly report, and I started noticing that they were striping the parking lot. And doing a lot of air conditioners, it was like one building that was getting new air conditioners every other quarter.

So, you kind of start picking up clues. I got out of that investment, by the way. So you know, you don't want to be blind, you want to keep an eye on it. But you do want to be passive. So, you know, maybe schedule a time once a month to just kind of look at it for an hour.

WS: Yeah, I think it's very wise, we spent a ton of time sending out monthly detailed updates, you know, to our investors. And often we'll get a question, what about this? And like, it was in the report we just sent it. You know, we try to put a ton of detail and there's a balance there. Right? How much is too much where they don't want to look at it, then you know, but anyway, one thing I wanted to ask you to just from your experience of investing passively, but also even on the general partner side, just preparing for that economic downturn. Right?

You know, as you're looking at projects, whether it's development, whether it's value added, you know, either way, short-term, long-term, how are you ensuring that you're prepared for a downturn? Or how you're ensuring that other general partner is prepared for a downturn, or maybe a couple of things you'd like to see, or even that the passive investor listening could know to look forward or ask about?

TB: Yeah, on our site, we do sensitivity tables and look at how bad can it get, you know, flat rents and 80% occupancy, or whatever, we'll do those numbers. And I want to see, again, I want to see somebody that's maybe been through a recession, and I want to see that they're doing the same things. And so I like it, when we started educating our investors, like two years ago, that things are probably going to change guys, and, you know, the 10, preps are gonna go to 9876, that sort of thing, you know, be prepared, adjust your expectations. So that's what I'll look for.

And communication, I feel pretty good when somebody says, Hey, guys, you know, we see some we see some times coming D, we might, we might might or might not be able to do distributions. I'd like communication. So I figure that somebody keeps communicating and afraid to tell you bad news. And sponsors should not be afraid to tell you bad news, because it's going to happen is maybe not going to be their fault at all. But transparency helps. So I like transparent sponsors, conservative sponsors, hopefully we're that as well. And you can't predict the future I can do is do the best you can you want to have you hope to have. You certainly want to have fixed debt, you don't want to count on appreciation, those sorts of things. I can go through a bigger litany, but just somebody that realizes that all things don't always go up.

WS: Love that. It's transparency and communication is key. And it's not rocket science on that side, right? Or you don't even have to be a surgeon to figure out you got to communicate. I appreciate that. And yeah, it's so important. And I love that you can't be afraid to tell bad news. It's gonna happen, right? There are so many things even though as much as we have in reserves and plan for all these things. We still plan for things we don't know about, right, have some cushion for things that we know, we don't know everything, right?

TB: That's why the PPM says you might lose money, because it can happen.

WS: That's right. No doubt about it. Well, Tom, grateful to have you on the show again, and I'm looking forward to doing another segment with you. And we're going to dive into the type of lens that you're using in helping to educate us a little bit, or a lot probably on that type of lung. But man, thank you so much for diving in today into multifamily and how you're looking at that even as a passive investor and how you're educating others. You know, as we're looking at sponsors and the investments and getting started and even managing those investments and being prepared for a downturn, thank you. Again, tell the listeners how they can get in touch with you.

TB: Just go to rich dot life forward slash toolkit, that's where you can get in touch. Get to the website and get a hold of me and that'll get you a free gift that'll get you some stuff that's maybe helped me over the past 30 years create my real estate portfolio.

[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 The 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.

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