Episode 1598

[INTRODUCTION]

Paul Thompson (PT): I just wanted a way out to where I control my own time. And the whole purpose of earning money is to give you options and freedom. And anything that I thought about doing to earn money outside of a corporate job felt like I was buying myself another job. And real estate, this was a way for me to dip my toe into the business. I started with single-family. And I have since had the scale removed from my eyes and realize the potential of multifamily. And so, I've used real estate as a way to give me the option to design my life based on my terms and live life by design and not by default.

Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Paul Thompson. He's a successful real estate investor entrepreneur, used his expertise in real estate to make the transition from the traditional 9-5 work schedule to becoming a full-time investor. In addition to his own real estate investments. Paul is the founder of My Freedom Foundry and Next Level Mastermind, where he helps other real estate entrepreneurs grow and scale their business.

WS: Paul has actually started his own fund, a few funds, bought different types of real estate. But we have a great conversation around the fun that he started yesterday as a 506(c) fund and a specific way he is structuring this that I know that if you're in this business, you're gonna gain a lot from just his thoughts through why he went this route. And just some details behind me and things you need to know, right? If you're thinking about starting a fund, because it can be quite overwhelming to think about all the rules, you need to figure out where you're at in the capital stack. Is this the best thing for your investors? Or is he finding his investors for this kind of fund? You're gonna learn a lot from Paul today.

[INTERVIEW]

WS: Paul, welcome to the show, I'm honored to have you on and just reading a little bit about you. It's a, you fit our avatar because I'm wanting to have more passive investors on and more people that are very active in this space as well. And you have done that. I mean, you've left the nine to five and made it happen in real estate. And now you're helping lots of other people do the same thing. And one specific way that you are in this business we're gonna talk about today, that's maybe not as common that I want to dive into. But first of all, tell us a little more about who you are and why real estate. That path from the 9-5 to this syndication business. That, man, that even sounds scary, right? When you found that way.

PT: It is scary.

WS: I say it that way. But you know, why this business from nine to five? How'd you get there?

PT: Well, I just wanted a way out to where I control my own time. And the whole purpose of earning money is to give you options and freedom. And anything that I thought about doing to earn money outside of a corporate job felt like I was buying myself another job. And real estate just was a way for me to dip my toe into the business. I started with single-family. And I have since had the skills removed from my eyes and realize the potential of multifamily. And so I've used real estate as a way to give me the option to design my life based on my terms in life by design and not by default.

WS: Love that, no doubt about it? It's what we all dream about, right?

PT: It's why we do it. Fundamentally, it's why we do it.

WS: Yeah, for sure. How did you do that? You said single-family? Why? Or how large did you get into single-family for you realize, hey, this multifamily there may be something to this multifamily thing everybody's talking about.

PT: Yeah, so I basically built a portfolio of single-family rentals. And I have a few small multifamily projects, but usually like six units or something. So nothing really that big but it takes a lot of work and a lot of effort to find that many different units. And buying a 40-unit apartment complex is not 40 times harder than buying a single-family unit. It's harder, right? But it's not 40 times harder. And so you get these economies of scale when you get into the multifamily space that I was a little bit afraid of at first. And I went and looked really hard for new projects but I was kind of late to the game. It was in the you know, 18, 19, it was like 18, 19. And it was really hard to find deals. And I was new, so I didn't have any sort of competitive advantage. So I basically decided that, you know, I'll just build my own and talk about jumping off into the deep end. But that's, you know, getting delayed development is where I went because I wasn't able to find my own projects.

PT: And in the process, I learned about lending and started lending on deals, mad at my own funds. And that got me kind of excited. I kind of realized that there's a reason why the biggest buildings downtown that I've ever been to in every city you go to or banks are because the money's in the money. And so what I did is I used the access to other people's money as a way to start my own fund where I could actually help other people fund their projects.

WS: That's awesome. Yeah. The realization why the biggest buildings in town are the biggest buildings. That's neat. Well You know, right now our I guess, you mentioned right before we started, you know, launching, you are launching a hard money lending fund and want to dive into what that is. But how did you get there? I mean, not just everybody thinks of and I know launch a hard money lending fund, right, and even knows the path to get there. Were you doing some syndications before that? Or, you know, what did the business look like before that

PT: The business was very non-traditional. So I haven't even done classic syndication, I just jumped over that, that normal way of doing business, I just went from doing my own projects as the sponsor, where I was able to raise the capital myself without necessarily syndication, but I was able to bring in some private money. And I took that lesson, which I'm still in the middle of. By the way, these are fairly good sized projects that I'm doing for land development in Texas. And I've taken the experience that I have, because we used some funding, some, you know, not really hard money, but we use private lending as an option. And as my network grew, I realized that I could take the concept of lending that I'd been doing for single family into the multifamily space.

PT: So in the process of developing myself as a business owner, entrepreneur, whatever you want to call it, I was doing some lending out of my IRA, and my solo 401k. But most people don't sit on, you know, several million dollars worth of capital in those accounts. And I'm the same, so I ran a capital. So I thought, Well, okay, let me create a way to do this, because I really liked that side of the business, because it's so passive. And basically, all I do is do the part that I liked the most was to evaluate deals, say yes or no, and then collect checks. And that's all it's involved. And I think lending, right, so it's the, it's the top of the pyramid as far as the amount of value you receive versus the amount of effort you put out to provide the value. In my estimation, that's where it lies. So I want to do more of that.

PT: And so I've gotten kind of good at raising money, what if I got really, really good at raising money. And really, the evolution that I'm in right now is becoming really good at finding people who have access to capital and deploying it in a place that makes the most sense for their use case. So that's kind of the thought process that went through in figuring out how to do lending. And it's an affinity I had for one, and then there's a huge market opportunity because most people are sponsors. And most people need to raise capital, and that's big, and that's a much bigger part of the job for a syndicator than people would probably first think about when they get into the business.

WS: I have a few questions about that. But before we get there, I wanted to ask you, you mentioned, you know, getting really good at raising money. I know that I picked up a lot of listeners, ears right there, speak to some techniques, you've learned to get really good at raising money or building, you know, those kinds of relationships.

PT: It really comes down to your network. And I am not a gregarious outgoing personality. So I am not the classic salesman personality. But I think that actually works to my advantage. Because I'm not trying to sell a used car to somebody, that's not my angle at all when I'm trying to build a relationship, I'm genuinely looking for somebody who has a problem that has capital. And that problem is I need to earn yield or I need to create cash flow, I need to grow net worth. And I've gotten pretty good at just getting to know people and asking them, what are your goals with your capital? What are some previous projects that you really enjoyed? What are some struggles that you had, that you don't ever want to deal with again? And then understanding, okay, well, you know, I might know somebody who has access to that kind of a concept over here, because I don't. And when I do have one, but when I am that often, I do have the solution for their problem, I can very casually interject this concept of, you know, I have this fund, if you want to hear more about we can get on a call afterwards, you know, just talk about see if it makes sense for you to get some your money out to out to work, or you'd be interested in hearing more about it. I miss verbatim when I say it, it is just as casual and laid back as that. And it's really interesting to end, every question that you have is, oh, would you be interested in hearing more about that? Or as you know, into it. And if they're not into it, zero heart feelings, you keep having great, great conversations. But what I did is I basically did a very soft ask there.

PT: And then here's a lesson that I learned very recently. Everybody should take note of this. When you do raise money, and you do give somebody the return that you've promised, which of course you're going to do because you're going to treat their money as though it's your parents money, right? I mean, they're their most precious resource that you're gonna have when this business is raising money and your reputation must exceed everything else, right? So you're gonna get this offer to somebody you're going to live up to your promises. When you do that. You ask them, Do you have anything else to deploy? Or is this all you got? Because most every investor is going to test their investment for they're gonna give you a small sampling of their money. And there's, it's possible that they may have a lot more capital to deploy. And once you've proven it, then you probably don't need as many investors as you think you need a few really good investors that you've developed that trust with. But then here's the real real lesson that I learned recently is, have you really enjoyed this. You really enjoy Whitney like

WS: Yeah, keep going. We get questions about these things all the time. So it's good.

PT: Yeah, great. Well, it wasn't a great way to. Can I count on you to share that with somebody else who can get to the same return? Can I count on you? I learned this at a conference recently. And I have used it twice now. And I think I've left a lot of money on the table by not asking the existing happy investor for a referral.

WS: For sure. No doubt about it. I've had to learn that as well. Asking a happy investor for a referral. Yeah, a very good point. So, of course, some great questions, and I just led into that conversation, and this very soft way, you know, no pressure. I love that. I think most of the time when people feel pressure, the answer's no, right?

PT: Right.

WS: So can completely relate to that. But you know, I want to jump into or, you know, give you a minute to talk about, you know, this launching of a hard money lending fund. And so why a hard money lending fund, and just for the record, in the very beginning is a 506. C fund. So we can talk about it, Paul's walk and talk about it, he can put it on a billboard legally if he wants. Because it does mean only accredited investors can invest when we've talked about that hundreds of times on the show and what that means. So we won't dive into that now. Take your attorney's advice, but we can talk about it, thankfully. But why a hard money lending fund, and you know, say syndicating your own deal or something like that speaks to the thought process or any more detail there.

PT: There's a couple of reasons. One is, I don't want to be a sponsor a lot. I'm a sponsor right now. And that is, it's a lot of work. And it's a lot of work that isn't in my zone of genius. So I have attracted good partners, and we can do things well on a project when we need to. But that isn't what isn't that what gets me up in the morning. It's like, oh, well, let me go school, find another deal. Let me go do another value, add or do another development, because there's just like, there's a lot of thought that has to go into getting that right, I would so much rather find a world class sponsor and operator and solve a problem for them that they don't really like having to solve, which is raising the capital. So a typical syndicator or sponsor for even if it's a fund, they're looking for deals, they're evaluating those deals, they're getting the deals under contract, they're raising their own bank loan, and then there's a gap that they have to make up for, and I want to be the solution to that gap, which is, then they're having to create their webinar, then they're having create their pitch deck, then they're having to go and raise money, then they're having to come up with whatever portal they're gonna use, etc, etc, etc. And that's quite a bit of work. And it's hard to do all of that. And that's the part that I enjoy. So I will step in and be that person, so that the sponsor can be a world class operator, while I can be a world-class fund manager.

WS: Makes sense. Speak to what you said earlier, you know, huge market opportunity.

PT: Right? So how many times, if you right now, if you go out and look for a sponsor, and you go and look for somebody who's trying to raise capital for their commercial real estate project, or the residential development, they're a dime a dozen. They're everywhere now. And they're not all the best ones but there's a lot of people out there doing this, and it's good, it's a net good thing for everybody involved to think. However, I don't know if I can out compete them at being a sponsor, like, I'm not sure I want to take on that challenge. But the market opportunity is very few people are fund managers, very few people are willing to go through the pain it is to get your funds stood up, because it is a lot of work. And it is painstaking talking to the attorneys, and paying the fees to get this document, this 80 page document that you don't want to read. That is something that a lot of people do, they would rather deal with apartments and deal with their multi storage or, you know, whatever their project is, they'd much rather deal with that and getting everything turned over and leased up then doing the money raising side. So I feel like that's something that I can take off their plate or at least reduce significantly so that they can do what they do best.

WS: Speak to, you know, who you're lending to exactly, or the type of deal that you're looking for, that you're partnering with.

PT: Right, so I have a fund that focuses on multifamily development. And then we always have idle capital and with that idle capital will do land loans to flippers. So it feels like two different products in it, but I've been in the land business and now have to know that I can I've done a lot of land loans myself, that I can do small scale land loans and get a really good Alpha there. Whereas I can do longer term, lower return, but just more consistent returns with some basically combining two different loan products into the same fund. So I can maintain a high rate of return for my investors, and basically take the any kind of concern of you're tied up in one big sponsor project, where if something goes wrong with this, you know, I don't know $25 million $50 million 300-unit apartment complex, that if that comes on round and you're exposed, to you're exposed, is that as you would have been if you just funded them directly. So I want to spread out the risk across several different projects, that's how I'm able to do it. And keep the idle capital that I tend to that any fund managers always have and deal with out to work with the smaller projects.

PT: Speak to some of the difficulties in you, you kind of highlighted a little bit but of starting a fund like this, maybe so what are the challenges? Yeah, yeah, maybe some pros and cons of just, you know, things that we should know before they start their own fund.

PT: I am a brand new fund manager so some of these pain points are fresh in my mind. And that is one, there's a lot of rules to figure out, like trying to figure out all the different ins and outs of what type of fund is best for you. Just because I'm doing a reg D 506(c), does that mean it makes sense for you to do a reg D 506. C? What exemption are you qualifying for, there's a ton of rules to figure out. And it's expensive to learn that through an attorney. So I found a mastermind to be a part that focuses on training you to be a fund manager. That was a kind of a short cut, or a hack that I feel like I paid a lot of money for, but it helps me get off the ground so much faster. Some of the other challenges are knowing how to time everything. So like when you raise money and you start collecting money, when can you actually call the capital? And then how do you get it deployed? And because your investors are looking for a return, but you haven't found, in my case alone, to lend on yet. So balancing deals to money is why fund managers get paid, because they're raising capital for it with a certain expectation and going finding a fit in the marketplace for that.

WS: That's helpful. And you listed a few things there. No doubt there's some legal, there's rules that you need to figure out. And it can seem pretty overwhelming at first, but I think you need to know how you're not the first one that's tried to figure this out, right? There's other people who have done this. And I love that you mentioned how you went out and found a mastermind you found ultimately somebody that was ahead of you in this regard that you could ask these questions, right? And I mean, that immediately takes your experience level almost up, right? Because you have you know, a coach, mentor people who are doing it, no doubt about it. Speak to where, you know, this debt or you know, this, you know, this hard money lending fund your lending, so you're working with this indicator? Where are you at in the capital stack? What does that look like?

PT: Yeah, so I'm in second position lien holder? Yep. So for a multifamily syndication type deal. Instead of syndicating it, you would say, hey, I need to raise some money, do I need to go raise my own fund? Do I need to fire up some syndication documents? Or could I contact a lender who would come in and just take care of the difference. So typically, what a sponsor does is they will get some sort of bank loan that they're signing for their, you know, providing all the documentation that they're getting the handle probe to make sure that they qualify, right. And then they need to make up for the for the gap in lately that gap has been has widened because of the interest rates, so you know, what they were lending on 65% loan to value now that alone lending like 50 55% loan to value, that's a big gap people I'm gonna make up for now. So that's one of the opportunities I saw in the marketplace as possible, I can step in and loan up to 9% loan to value. So that could be as much as 40% of the entire project. And that's including rehab, right? It's not just acquisition, it's 9% of the project's value. So I could do potentially 100% financing for the acquisition, or make up the gap. And a position that I take is a second position lien.

PT: So I'm a debt holder, not an equity player. And in this case, we lend at higher interest rates then, like, it's typically hard money type rates, but if a global cash flows make up for it, then it probably saves you the sponsor on the long end because I'm not taking any piece of the ER and the investors aren't taking any piece of the LP aren't taking any equity, right? So if you can manage the carry of the interest, then I'm gonna end up saving a sponsor a lot of money when they exit.

WS: Yeah. Are you gonna speak to your thoughts on the just current economic climate and how that affects how you're using your fund or your expectations for the fund moving forward and in our current market.

PT: So the biggest and most well-known fund managers that you can throw the names out for almost all of them started their funds in a recession. And so are we gonna recession right now or not? It's debatable. Like I don't know, it's complicated if we are technically in a recession right now, but we're definitely in a downturn of some type. And maybe we've seen some recovery in the last couple, you know, days or months, but the Fed is not stopping right now they're going to raise rates some more, I don't know how much more but they are in there, the Fed will get their way, they are going to get inflation under control, no matter what the cost, pretty much no matter what the cost, they're gonna get their way. So the cost of that is, eventually it's going to affect the job's market. The job's market has been largely immune to this for some reason, like, despite the public announcement, you hear about the big tech companies doing layoffs. In January, we added 500,000 net jobs to the US economy, despite everything that's happening. So it's like really conflicting forces.

PT: But I believe in the idea that our population is growing. And if you're in a market where the population is growing, and there's net growth in jobs, then they need a place to live. And when you fundamentally offer a product that offers a nice, pleasant place to live, then you're in a good place. As far as being recession-proof. I don't know if you call it that, but you bet resistant to the recession. But you need to be aware of the debt, you're taking on the biggest risk that we're all taking. And I think there will be a lot of opportunity and probably already are opportunities right now in the marketplace where there are probably a very well-meaning very, very thoughtful sponsors that did their underwriting, assuming that they had some very low-interest rate that's coming due the next, you know, the three or five-year balloon, that balloon is popping, and there might be in trouble from a cash flow perspective. So there's an opportunity there, provided you can buy that property at some sort of discount.

WS: Yeah. Wow. Wait, what's your best source for meeting new investors right now?

PT: Meeting new investors that are sponsors is going to other masterminds going to capital raising summits, I love going to capital raising summits, because they're all They're learning how to raise capital. And I'll say, hey, you know, like, I just raised a capital for you. And you just call me a sponsor. Like, that's a very, I've become a very popular person at those types of events. Now, for raising the passive investors, you want to go where passive investors are and most passive investors are not going to cap raising summits, they're not going to how to sponsor or how to become a multifamily guy, right. So they're typically other events that are about how to find it may not be real estate related at all. It's just they're looking for yield, they're looking for safety and yield. And if you have trouble finding those, you can start your own, like meetup.com, isn't that expensive? You can host sessions, that's what I do, is I host a webinar and I have people come in and ask me questions about what's happening in the marketplace. I write a newsletter about what's going on in the marketplace. And that just attracts people who are curious about, hey, you know, I have some capital, I kind of want to, I want to find an opportunity. And that's typically where the private or passive investors come from.

WS: What's your best advice for passive investors right now?

PT: So for right now, for a passive investor, is you want to find a sponsor, or you want to find a fund manager, or whoever it is that you're working with, that just exudes trustworthiness and transparency and authenticity. We've seen what happens when that doesn't, that doesn't exist. And be careful about chasing yield, but not factoring in the risk that you're taking on. So it depends on your current risk. And it depends on your sophistication as a passive investor. But if you're not that experienced, you're not looking for the 25% return, like you're looking for something that competes with the s&p 500. That kind of returns, like that's what you're what you're after, because there may be 25% returns out there, but you may not really, you may be discounting the risk that you're taking on in on the chance of getting that kind of return.

WS: What are some of the most important metrics, Paul, that you track, and that could be personally or professionally.

PT: So, personally, this is interesting because it kind of ties together because on a personal level, it's not really money so much, but it's more of, Am I getting better? And whatever metric measures that for me, and it's something around like, how many people have I connected? How many people do I have in my, you know, Rolodex and dating myself, that I can call up and say, hey, I've got this opportunity. Would you be interested if I take the call and they're interested? Not that wasn't the best or not, but I'm creating a database of people that I can help. So I believe very strongly that our net worth is our network times our ability to provide value. So I'm trying to learn how to provide value from a business perspective, but from a personal perspective, how am I getting better? And how can I help other people? This is the kind of thing I'm thinking through.

WS: Yeah, no, it's good. We need to think about that every day, right? 1% better every day, right? In some way? Or what about what's the number one thing that's contributed to your success?

PT: Starting was number one, I spent 15 years in the corporate world, hoping, wishing, dreaming, fantasizing about being a successful business owner, or somebody who was doing something bigger than just working at a corporate job. And it took me a long time to get past that instead of just dreaming for it and actually taking the leap to do it. So that was like, the big leap for me was kind of, you know, changing, basically changing the wall my ladder was on. Like, I spent a lot of time climbing the corporate ladder, only to realize that my ladder was like a throwing wall. So that was revolutionary. But once I switched over to real estate, my entrepreneurial business space, then what made a big difference for me was paying lots of money to be part of really high-end masterminds and being the dumbest person in the room.

PT: This particular mastermind, I'm part of, for fund managers, I just got back from an event in Salt Lake City. And the story of, you know, I quit my day job and YouTube via real estate, because I built a portfolio of 40 rentals as table stakes for that room. It was not interesting, it was not impressive at all. That was like the minimum story to get in the room. I mean, it's money to get in the room, but the type of people who are willing to spend the kind of money it takes to be in that room, and there were 300 people there. And every single person I talked to about that, oh, well, that is one of the most interesting people I've ever met. And they are way smarter than I am. So I found my room. Right. And that is how you're going to elevate, it's very easy to get trapped into being the smart guy in the meetup that you host. And you're the guy who really got in from the microphone, and you know, they all have the answers. There's value in that, because you can help people. But there's, you're not getting better when you're doing that you may be improving your public speaking, but you're not getting better as an investor or as a sponsor or as a fund manager.

WS: Yeah, no, that's wise words, for sure. Finding that room where, man, everybody's smarter than you. That's where you want to be, right? And I would even highlight that, that changes over time, or it should change over time, right? If you're craving like you're talking about, Paul, that room needs to change, right? It has for me numerous times, and it doesn't mean you're leaving those people behind. Hopefully, you can still help them, right? But it doesn't mean you need to be pursuing other rooms, you have to be a part of what you're talking about for sure.

PT: You have to fill your cup, right, like you can't fill someone else's cup until you fill your cup first. And when everybody else around you has the same cup, then you need to get a beer cup and figure out how to fill it up. And it's just that you're constantly trying to figure out how you can fill your cup, so that you can then share insight, wisdom, access to capital deals, whatever the thing is to share with our people.

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

PT: I run a mastermind, and it is a for profit mastermind but it is not focused on my mind, my primary objective of that is not to run the biggest, most profitable mastermind, but it's to make some of the best friends in the world that I have. And, like, really, personally get to know people who are the mastermind. And like, we go on retreats a couple of times a year, and families are able to come if it makes sense for them, and we really get to become friends. And that's the best way I know because my fundamental goal is I want to change the family trees of 10,000 families. So I'm not there yet. But I have personally, I've had personally, people personally tell me, you've completely changed my life. Thank you so much. And it was like I didn't even know I did it. And they had to tell me. And it was because of one random thing that I may have said, or just inviting them to an event. And they met somebody else in that room. And I had no part of it other than hosting the event.

WS: Yeah, that's incredible. You just never know how many people's lives you can affect, you know, just putting yourself out there like that being willing to help. And so just appreciate you highlighting that. Paul, I'm grateful to have met you and had you on the show. And just the way you've given back to say and highlighting this hard money lending fund and why you went that route and how you've learned this process. And because that can seem very tedious, right, or overwhelming, I think to most, but you figured it out and you found people ahead of you. You went and made it happen. You took action. And no doubt you're learning a lot and a lot of people are learning from you now just like we've talked about, tell them how they can get in touch with you and learn more about you and your mastermind.

PT: Yeah, the best place to find me is Paul David Thompson. I'm probably the way you would expect to hear those names is probably in the show notes there. And from there on YouTube on Instagram. My website is pauldavidthompson.com. So those are the Those three places to find me.

[END OF INTERVIEW]

[OUTRO]

WS: 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.

[END]