EPISODE 1623

[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 and educate 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]

Whitney Sewell (WS): Our guest is Bill Ham. Thanks for being on the show, Bill.

BH: Hey. Thanks, Whitney. Thanks for having me.

WS: Yeah. Over the last 15 years, Bill has created a large portfolio of multifamily asset, his first 400 units were all bought with creative financing. He has written a book on creative cash to share those techniques with us today. The book is called Creative Cash, is that right Bill?

BH: Correct, that's the name of the book, Creative Cash.

WS: Awesome, well, I'm looking forward to hearing more about the book but I want us to be able to dive in to obviously, some creative financing techniques that maybe you share in the book or some ways that you can help the listeners think outside the box a little bit, right?

It's a big part of this business is being creative and being able to make a deal work and hopefully, it's conservative deals, all those things, right? But there's so many different ways to make it happen. Give us a little more about who you are Bill, maybe your background, your focus right now and let's jump into some of the creative financing things that we should be thinking about that you're going to help the listeners with?

BH: Absolutely. I've been in real estate for 16 years. I started in houses, flipping single-families. My very first deal is a duplex, I was a pilot by trade, backing all the way up. I was flying airplanes, started to study in real estate in '04, '03, '04, I closed my first deal in '05, which was a duplex. I had saved up $10,000 and the duplex is cash flow and 300 bucks and that's what I walked away from my aviation career with and just went into real estate full-time, for better or for worse.

I started flipping houses for a few years and then got into multifamily and then started growing my multifamily portfolio, larger and larger, started off with some small ones and got bigger and bigger. Did my first 400 units with some form of creative financing and my first syndicated deal was 152 units, but I actually go seller financing on the deal.

Quick background on that, my partner and I went in and we had to put down 25% or 25% loan to value and the 25% allowed the seller to clear their debt. They had a Fannie Mae mortgage I believe, and so they didn't have much of it left, developed it for a long time, we were able to clear that primary loan.

They then originated a two-year seller financing with my partner and I, we brought on our limited partner investors and sort of combined a syndication with seller financing or syndicated a seller financing deal and that was my first soiree in the larger commercial assets and I've been here ever since.

WS: Nice. Would you go into the detail or just a little more about that as far as – I know you said you syndicated that deal so you have investors on that deal or limited partners, but then there's also a dynamic, the seller financing, could you explain a little more of the details there? Was there issues with the limited partners or anybody have concerns about that, or how did that work a little bit?

BH: The backstory of how we actually got into that deal, my partner and I got into that deal was that the seller had a problem and that's one of my big focus is and that's one of my big subjects in the book is how to look at deals and how to analyze the deals in very specific ways so that you see what other people don't see. It's by using this lens of creativity that we can look at a deal, dissect the deal, dissect the seller and say, "What's really the motivation here, what's going on?" And can we create an offer that is a problem-solving offer?

That's the number one way we're going to get creative financing is when a seller has an issue that we can come in and solve. Well, this particular deal, the seller had leased out too many of the units to this one sort of facility that the behavioral facility had leased out a bunch of units from the property and put some of their patients in there. What happened was all the lenders didn't like that and they said, do you have to –

It's called a concentrated economic driver and they said, "You've got too much concentration to this one company." I think we were at something absurd like 22%, you know, and Fannie and Freddie will get itchy after about 10%. We were way over that and so, debt was really hard to come by, we're also in sort of a post-recession market in middle Georgia, that area hadn't really recovered as far as values and attention to real estate so there was a lot of aspects to make the deal "hairy" if you want to call it that.

The seller was having trouble getting anybody to actually close the deal and that's when I came and saw the issue, saw that the real estate was actually good real estate and the numbers work and the business was solid, it was the seller that actually had the issue and I can create a solution for that seller and that's basically how we got into the deal.

WS: Then mention again what you did there, what did the seller finance say, what part of the deal was the seller financing, how did you make that work for both of you so the seller was onboard with that?

BH: Yeah, it's what I really talk a lot about the book and I teach a lot of my students is to give on price and take on terms. When you're going into a creative deal, whether it's a master lease option or seller financing or any of the types of creative financing that I teach here in the book, it's about really understanding the seller is probably going to be more sensitive about price but not nearly as sensitive about the terms such as interest rate, maybe down payment, interest-only window, things of this nature.

This deal basically broke down to 75% loan to value, we had to put out in 25% but what we did was to be able to go in there and defer a certain amount of those first payments that you accrued to the back end — but we didn't actually have to straddle the property with debt from a cash flow. We were able to defer, I believe it was like six months worth of payments in the beginning.

We were, had a lot of cash flow that we were able to go in and use that money to then stabilize and turn around the operations as we lowered the tenant base. We basically, literally, had to get rid of cash paying tenants. You can go figure, right? That's what we had to do. We did that and we released those units to regular street tenants and the normal market rate tenant and at that point in time, within the two year window, we stabilized the asset. We were able to refinance into a long-term Fannie Mae loan and happy ever after, basically.

WS: Good deal. Ultimately, he needed the 25% down to get out of his debt like you were talking about but then he financed the deal for you as the seller and then, but your terms is what helped you a lot because you said, "Okay, I'll pay you these price," because that's what he's stuck on, just like you said, so many sellers, they like that number, however, there's other ways to make it better for yourself and sounds like you made that happen.

What other examples or how else would you help the listener think through right now, some creative financing options or to creative cash options, right? Maybe we wouldn't normally think that you've seen people take deals down with?

BH: Yeah, there's lots of techniques out there and lots of ways to combine certain techniques. The two major ones and the ones that I cover the most are seller financing and master lease options. If you're in a single-family market, it's just a lease option. We call it master lease option when you start covering multiple units at one point in time.

Those are two of my favorite techniques. They have not had a lot of traction and not a lot of use over the last five or six years. Simply because sellers have not had that many problems. If a seller had a problem, they could probably just take that property and put it in the market, they're going to get asking price, we all know over the last year or two, they're probably going to get more than asking price.

That tide has kind of floated all of those problems both. Well, what I'm predicting is that we're at the top of the market cycle, we're going to go down here soon, maybe not a crash, I don't believe we're headed into a full meltdown, so to speak, but I do believe we're going to have a pullback, one of the big areas we're going to have a pullback in is debt.

We're already seeing that, all right? We're seeing lenders start to tighten up, we're seeing Fannie and Freddie at t his point in time, making us have the one year's worth of principle interest, taxes, insurance, this is difficult and it's making deals much harder to fund. That's where we're going to see the advent of creative financing.

I'm predicting over the next year or two years is where this subject is going to become very popular because this is going to be how you're going to have to deal with a distressed asset or a value add asset when those lenders may not be there to fund it. I always kind of make the joke on when the market's going up, we call it a distressed asset or something that needs work or renovation, we call that value add.

When the market is on the other side, we call it a distressed asset, same property with the same repairs, right? We have a nice name for it and got a bad name for it. Well, we're moving into the distressed asset market and that term comes about because it's lenders. We'll start labeling these as distressed assets and no longer value add and that's the excuse they'll give you for not funding or for giving you very low to value — very low loan to value.

That's what we'll use creative financing for. Now, a specific technique for your listeners, one of the big techniques that I use is what I call the SPY technique and this is something that I created and SPY, stands for Seller, Property, You. That is the order in which you're going to want to analyze a deal. Most people make a mistake, the biggest mistake that those people make, when kind of analyze and looking a creative financing, is to sit down and decide what is good for them the buyer or the investor.

What's good for me, then I'm going to look at the property and I'm going to say, "Okay, maybe there's something wrong with the property and then lastly, I'm going to think of the seller." That's a mistake. You've got to reverse the order and that's why I created the acronym SPY to remind you, start with the seller and the seller's problem, make sure your offer solves that part, then move to the property and see what the property wants. All right, now craft your offer to create something that may solve the deferred maintenance, low occupancy. The list can go on and on.

Then lastly, the offer needs to solve your problem. You are the least important in the equation and that's the biggest step I think I can give listeners is follow that technique and you will increase the probability of getting deals done through creative financing tenfold, easy.

[INTERVIEW 2]

Sam Rust (SR): Joining me today is Christian Osgood, co-founder of Multifamily Strategy, Christian has been investing for several years in multifamily real estate, has over 100 units without syndicating and without using a lot of his own cash.

We're gonna get into a lot of owner financing and creative financing structures and various other aspects of running a decent-sized multifamily portfolio. Christian, welcome to the show. Thanks for joining us today.

Christian Osgood (CO): Well, thank you very much for having me.

SR: Fantastic. So you're based in Washington. I'm curious, are you guys investing primarily in the Pacific Northwest?

CO: So actually, the vast majority of our portfolio is in Central Washington. I have seven units in Seattle. Cody, and I just bought a resort and the adjacent property on the Hood Canal, which is on the coast, and the rest of our portfolios in Moses, Lake Washington, Grant County.

SR: Okay.

CO: So all in state, but kind of all over the state in two separate markets.

SR: So I'm really curious about the resort property. You've mentioned that as we were getting started. Give us the story on that, because nothing that I love more. It's a good story around real estate, a resort property, and it's a little bit different. Is it Airbnb? How did you guys find it? Let's get in and do a case study here.

CO: Yeah, absolutely. So I'm gonna preface this with a couple of quick things. I'm not a big fan of people changing around their business model. Stick with what you're good at. So we bought 100 multifamily units. We went to a resort that is a change of model. I usually tell people not to do that. So I want to preface with exactly why we don't —

SR: Do as you say, not as you do. Is that what you're trying to tell our audience, Christian?

CO: No, do exactly as I do. But there's a reason that we did it this way.

SR: All right. Preface accepted.

CO: Yes. The original goal that Cody and I set between the two of us was in the next two years, is it possible for the two of us to buy a hundred units together? We just had this crazy goal, we're on a trip in Florida that's where I met Cody. And we're like, "Okay, let's try to do that."

Well, we did it in one year. And the way that we did this is every time we do something, we meet someone at the next level, who's done what we want to do. So say on a duplex, I talked to some of the 12 Plex, "how did you get to where you're at?" And once you get to 100 units, that was the original goal.

I built a team that had a lot of Airbnb experience through the process. And we went to a resort owner and this is how this deal came together — tying it in. The deal came up from a friend Dion McNeeley for Dion Talk. He's on a YouTube channel. He was looking at this deal, it was too active for him. And he's like, "You guys should check out this resort."

And I'm like, well, we don't really do resorts. But I would like to learn so we called the owner and said, "Hey, I want to check out your resort because I want to see what it looks like to run a resort." And we spent a few days down there. And Cody liked it so much that he moved in for a month just to learn how to run a resort and that was all during the negotiation.

SR: That is one way to go.

CO: Yep, that was all pre-close. We were talking about it. I love this property and it felt like the appropriate next step for our team in real estate. We hit our original goal first. We have a base of renters paying; its cash flow on long-term leases, like annual rental leases. That was a place where I was comfortable taking the next step in our business. Which brings us to the resort.

Resort deal was a seller finance, like everything in the portfolio was $4.5-million purchase, 20 cabins on the water. If you're watching and you're not familiar with the Hood Canal, so one of Forbes' most beautiful places in the United States, Union Washington. Right now the orcas are running through the canal; some are swimming up our creek that runs through the resort. It is a super cool, unique asset in a gorgeous place.

The opportunity on this one is adding systems. The owners have owned that for a long time, the prior owners, and they lived on-site full time, and they had no debt. So they didn't have to push every business revenue piece. They didn't have to optimize everything. Because they already had a model that worked well enough for them. And they were doing just fine for us coming in and actually having debt we had to take it to the next level. And that's the process that we're at now.

SR: Fantastic. How did it go negotiating that project? Because it's a small resort, it's very boutique. There's the Airbnb, it's very heavy on operations. You know, this owner sounds like they really loved the property. If I had to guess reading between the lines, it was kind of their pride and joy. They don't want to just sell to anybody they want to sell to somebody who's going to kind of take it to that next level. So there's an emotional component that maybe you don't see in some traditional multifamily deals. Walk us through how you guys navigated all of that.

CO: Well, negotiations were kind of fun. The prior owner has done some serious business leadership. I don't know how much he wants me to share, but I'll say he's done very, very well in the medical space, very well in multiple industries. So he knows how to run a business. He knows how to negotiate. So we went through, remember our first conversation when it finally got down to, "Well, what do you guys want to do?", and it's like, "Well, I'm in."

It's like, "So, how are we closing this? You guys bring a checkbook:" And that's where we got to start laughing because we got to share a little bit more of our story of how we started in multifamily without any money. And it's all storytelling. If you're building relationships, you just connect over this is where I've been, where I'm at, where I'm trying to go. And lastly, why it's significant. But we just shared our story of how we got to the hundred units, where we're at and we shared maybe unwisely.

Well, we're looking at another deal in Central Washington right now where it's a million-dollar raise. And that's, that's where we're comfortable in what we can raise. So of course, they went out, well, a million dollars down sounds ideal. We should have said we were raising 450. But that's the first number thrown our way.

They helped us structure a rather complex contract. It's a combination of seller financing and contract for deeds on multiple parcels. But we put together a master structure to take it out. I think, if I remember correctly, Cody's here, he's our numbers guy, but four and a half percent interest, million dollars down, seller-financed, eight-year note, and day one, it is very cash flow heavy, which is good because it's an active project. You expect a very active resort where you have more inputs. The income does need to be higher than traditional multifamily.

[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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