EPISODE 1630

[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 Justin Elliott. Thanks for being on the show, Justin.

Justin Elliott (JE): Thanks for having me, Whitney. Appreciate it.

WS: Tell us about that a little bit how you learned about the syndication space and thought it was something you could do.

JE: I knew about syndication, but I didn't realize really what it was starting a business, right? I mean that's what you're doing when you're starting a syndication. But how I wanted to get into it was I wanted to get just bigger apartment buildings. So I thought, "Hey, I'll get a 10 unit apartment building. That sounds like a good number." And started down the journey of underwriting. That was kind of my main thing. So went out and found a tool to use to underwrite and started underwriting a lot of deals. Even made an offer on a property before I really knew what I was doing, and I didn't get that deal — thankfully. I think the broker saw right through my inability to underwrite at that point. And I've since gotten better at that. But that was a big part of it. It was really learning how to underwrite a deal. And I suggest that anybody that's going to get into apartment investing even on the passive side should learn a little bit about how to underwrite, if not a lot about how to properly underwrite deals. So that was a big part of my journey.

Once I was kind of looking into 10 units and thinking about due diligence and commercial loans and Fannie and Freddie and all the intricacies of apartment buildings, I really thought it would be a good idea to get a mentor. So I went the mentor route. And that's another thing I suggest. I think there's a lot of ways to find mentors. You can pay for one obviously. You can build a relationship with one. But I think it's absolutely necessary if you're going to go raise capital to find someone that's been there and done that to help you get into business.

WS: Elaborate on that a little bit about finding the mentor you chose, because it's such a large investment. And I remember, I hired a mentor. I've had numerous mentors for different things now. But at that time getting started in the syndication space, I knew I had to have a mentor. But it was a big investment. It was even a much smaller investment than what most are today. But at that time — and that was a big decision for my wife and I, because it was the biggest check we've ever written besides for our home, maybe, or something like that.

So how did you go about finding that mentor and deciding, “Okay, this is the one that’s going to help me get to that next level?”

JE: I found someone local. I’m from Minneapolis, and there’s someone here that — Drew Whitson is his name. He’s a syndicator that has done a lot of these types of deals. And I got hooked up with him through a referral kind of in my network in a mastermind group. And so I ended up just paying Drew a mentorship fee to help me. And that’s — a lot of the ways — And there are a ton of programs like this, as you know, that are out there that you can do. So that’s the route I went.

I had just sold a business that I owned and didn’t make a ton of money, but I had enough to afford the coach. So it’s kind of like for me it was reinvesting in my business. And everybody does something like this. And if they’re good at what they do, right? At some point they found a mentor or they’ve paid a consultant, and it’s no different in real estate business. I just chalked it up as a business expense and something that I thought would help me get to the next level. And of course, once I wrote the big check, I didn’t want a 10 unit anymore. I wanted to do something bigger that would have a bigger payoff. So I started immediately thinking bigger and looking at bigger deals because I had this mentor on my team.

WS: Nice. Let’s talk about that. How did you raise that capital? How did you find those investors? What are some lessons learned for you to make that happen?

JE: So I started a year prior to closing this first deal, probably, pretty close to that. Teaching out to my network. I had made the commitment and decided that I knew I wanted to syndicate a deal. So all my friends, all my family, all my business acquaintances, everybody that I’ve — business partners from previous businesses, all that stuff. Reaching out to them with a very general email just explaining what I was looking to do. So something to the tone of, “Here’s what I’m doing. I’ve been doing this where I buy these multifamily properties. I put some money into them. I fix them up and I refinance them or I resell them. And I’m looking to do that on a bigger scale. And in order to do that, I need to bring some investors with me and help them make a little bit of a profit as well. So if I find something, would you be interested in at least hearing about what I have?” So not a big ask, right? Not like, “Hey, give me 50 grand.” But, “Can I just keep in touch with you?”

And from there I developed just — a list of maybe it was initially 50 or 60 people that really had committed nothing other than hearing about a deal. And then I kept in touch with them from there and just let them know. The tough part is once you do that, you really feel like you got to go find them a deal, and that didn’t happen right away for me.

So I was actually letting them know about deals that I didn’t find, right? I underwrite X amount of deals this month and nothing’s looking good. And of course, this is at the top of a market cycle, right? So deals were not easy to find or are not easy to find, even still today. So just let them know that I’m looking for the right one. And I think that helped me build some trust because people knew that I wasn’t just going to go get anything that crossed my desk.

Eventually got the one under contract and went down the path of really starting to get more firm commitments from people, which was basically just an email, some phone calls, a lot of conversation, texts, talking to everybody that was on my list. We ended up doing like a pre-recorded webinar. A lot of people do webinars live. We didn't want to mess with the live webinar, just because being our first one, we wanted to be very smooth and kind of very clearly communicated. So we did a pre-recorded video and sent that out to our list of investors and had people watch that first. And then we had conversations with them and got soft commitments from there. We ended up getting the deal funded. It took about eight weeks really from like the beginning to the end, which is a long time, right? I mean, there's people that will get deals funded in 24 hours. We were taking eight weeks. But that was really a product of what we were learning on the timeline of things. We would do it much differently or we have done it since then very much differently to make things a little bit smoother. But it ended up working and we got the deal funded and closed the deal.

WS: Nice. Well, I want to jump into that a little bit. What you would do differently to make it more smooth now as you talked about. But any other just like lessons learned as far as raising capital or maybe that's part of it as well?

JE: Yeah, the timeline is a big thing. So having a very firm timeline where all the general partners are on the same wavelength with their investors. So I would spend more time getting the word out about the deal ahead of the funding of it, right? So we were kind of doing everything at once. It's like if we had an investor that was interested, "Okay, here's the PPM. Wire the funds," right? We might do that like week two where we had people funding the deal for six weeks. So what I would do is I wouldn't do that. And this is what we've done since then, is we've created a deadline to wire funds. But we've also created a time basically a few days before that to open the funding of the deal. And our time is really spent prior to that educating people on the deal, getting kneecap to kneecap with investors and talking about the returns. And really just making sure that we get the word out and have those individual conversations up front. Then we say, "Okay, it's — whatever. It's this date. We're going to open funding," and just leave it open for a few days to try to make sure that there's a clear timeline that the investors understand to get their money in.

The issue that that's preventing, really, is something that happened to me where I had a couple investors drop out. And you want to have enough time on the backend of that funding that if you don't get it funded, you can go to plan B. What the situation I found myself in was I had a couple people — I had everybody committed, right? didn't want to talk to anybody else about the deal, because I'd already had these verbal commitments, yet I didn't have everything wired. And of course what happened a couple weeks before the deal closes, I have a couple people drop out and I gotta scramble to find those last couple investors.

And so you don't want to be going to the closing table not fully funded. And so that's why I think the timeline is something you should think of even if you're thinking it's going to be a while before you raise money. Go ahead and start planning out a timeline for your capital raise ahead of time so that when you get that deal under contract, you know exactly how the timing of it's going to play out.

WS: Such great advice there. I appreciate you sharing that just being transparent about this deal. And investors do drop out right? I mean life happens. It's not always because they hate the deal or don't trust you, but things happen in their life. Over that period of time they commit, but then all of a sudden their child's or their own car breakdown breaks down, or college expenses that they weren't expecting for a child, or whatever. Things happen. And so you better have a backup plan. You better raise more than you expected that you needed. We now have large wait lists after a raise or during a raise. And before I send out an email saying "You were oversubscribed," we've been oversubscribed a long time because I want a waitlist because of exactly what you just said. Because people will back out. And it gets easier, right? It gets easier over time to raise capital. But especially at first, you better expect people to back out.

JE: Our second raise took two weeks. So it went from eight weeks to two weeks, and hopefully that gap just —

WS: Congratulations.

JE: Thank you. Yeah. Hopefully that gap just continues to close. But certainly, I think the more deals you do, the more you're going to have some people that couldn't get into the last ones that makes you full for your next one, that sort of thing. It's really the first one that's the toughest.

WS: What else would you say played a role in getting to two weeks from eight?

JE: People seeing that you've done it. You know what I mean? I mean people want to wait out on the first one. They don't want to necessarily throw the money in on your first deal. Now, I feel like — again, going back to the mentor, having a mentor. That reduced the amount of people that had the fear of like, "Hey, this is your first one," because I wasn't just doing this haphazardly. I'd kind of taken the steps to find someone and put them on my team. I can tell you, the second time I had conversations with people, it wasn't as new of an idea. They understood syndication because they looked at that first one. They understood the process more. So the second one becomes a lot easier, I think, because people just know more about the business you're running.

WS: No doubt about it. They see your emails. And I like how you even talked about in the beginning, just sending deals even before your first one. Sending things you're looking at. Why they didn't work. How that built trust. And now you did a deal and they see that and it's like, "Okay, he's had some success." And tell me, what do you share with those investors about that first deal maybe that didn't invest or do you?

JE: That we closed, first of all. And then I do LinkedIn. So they follow me on LinkedIn. They see things like the building getting painted and new shutters are getting put up and, "Hey, here's the before and after rents that we've created." I haven't gone full cycle on that first one. So certainly, I'd like to share that we created X amount of return, which I'm very excited to share that when we do it. That'll be obviously the next thing for me, is knocking it out of the park on this first, second, and third deals to really start things moving. I can't do that yet, but they can certainly see that, "Hey, I get what you do now. Okay. So you buy these things. They're not the greatest looking buildings, but you make them look great. Okay. And then you get rents up. Okay, I see how you do it." So they're following along on that stuff on social media for sure.

WS: Nice. Before we move to a few final questions, any other suggestions or lessons learned you want to share with the listener about learning to raise capital?

JE: You got to talk to a lot of people. So I think, again, just open up your network. Tell everybody what you do right now, because you will be surprised who invests in your deal. People that I almost didn't send the email to because I'm like, "That person would never do it." —put 100 grand in.

I mean don't assume someone's not going to invest in your deal. Tell them about what you do. Ask them if you can keep in touch with them. Certainly, make sure to notify them when you get that deal under contract.

[INTERVIEW 2]

WS: Our guests are Jenny Gou and Steven Louie. Jen and Steve are both managing partners at Vertical Street Ventures, Jenny currently oversees asset management and investor relations, while Steven is responsible for acquisitions and sourcing capital. These two provided amazing content today, just about their partnership, how they partnered, how Jenny really went from zero to 950 doors in 12 months and how they're now able to raise many millions of dollars in a very short period of time, how they've used their previous networks and different things that they've done, I hope this show helps you to build your confidence in this business and grow your business at the same time. Hello, Jenny and Steve, welcome to the show. I've read your bio, of course, and I'm very interested in how you all have been so successful in such a short amount of time, I know it's a lot, you know, it seems probably like it happened just overnight, but I'm sure there's a lot of work that went into making all of this happen to the success that you all have had. Let's get a little background, Jenny, Steve, on where you were all were at a few years ago and how you came to this indication business and why.

Jenny Gou (JG): Absolutely, thanks for having us. We're super excited to be here. I can start. So again, my name is Jenny Gou. A little bit of background on myself, I spent 13 years in corporate America working for a company called Procter and Gamble, so I sold brands like Dawn, Cascade Swiffer, and Febreze, setting sales strategies, managing cross-functional teams, loved my job, but at the same time started dabbling in real estate. I'm sure many of your listeners out there started on the single-family side, got a couple of rentals and then quickly learned about scaling and getting into multi-family. So that's what we did, we jumped ship over to multi-family, and at the same time, I just loved the industry so much, wanted a more flexible lifestyle, and so I left my corporate W2 job back in February of 2020, and then have been head first in multi-family ever since and then, more recently, my partner, Steve and I started Vertical Street Ventures earlier this year, and have been doing syndications full time.

WS: So, why real estate? You had the corporate job 13 years. You loved that. I mean, why real estate? Syndication comes 'cause people wanna scale, right? You try to have a single-family thing and it's like, this is gonna take forever. I did the same thing. Why real estate? Why not stay where you were at?

JG: Yeah, so we started with our why, so my husband and I sat down and our fundamental exercise was, what are our priorities and how do we wanna spend our time? Because we really didn't wanna work until we were 65, and so we said, Okay, how do we best generate income without having to work the 9 to 5 job, and obviously the light bulb was passive income to start there, and then we said, Okay, well, what could generate the best class of income with relatively manageable risk, and we landed on real estate and more specifically multi-family, that's kind of our thought process through all of that.

WS: Now, Steve, I know you have a long background in corporate America as well, tell us a little bit about that transition and why.

SL: Yeah, no, absolutely. Thanks, Whitney, for having us on the show. And very much like Jenny's, I was a corporate W2 Junior for about 25 years. And about halfway through my career, met with a financial planner and the financial planner actually said, Hey, you should consider something like real estate, there's a lot of tax advantages to it, and it's a real asset, you're heavily weighted in stocks and bonds and your portfolio might do well with adding in real estate, and at that point, probably about 10 years ago, I dabbled down into real estate and realized that there are those tax advantages that you can take advantage of, like depreciation, which we can talk about… And they gave me kind of a passion to work on real estate, one of the things was started in, like Jenny, single-family homes. Developed, I got a block of about 10 different single-family homes, duplexes and four flexes and realized that I needed to graduate into multi-family, and we went to a seminar and that seminar really got me vested into multi-family about four years ago, doubled down on that, got a coach and next thing you know…

SL: I have 20 passive investments that I currently have as a limited partner, and then about seven that I'm a general partner on, and all that was while I was working my corporate job, I call it, from a corporate standpoint, had a very busy corporate job, I started in a cubicle and then ended in a corner office in my senior leadership type position.

WS: Nice, I just like the listeners to hear like you all had a great corporate positions, you've been in for a long time, it wasn't like you were just job-hopping, you gave up a lot to say, Hey, we're gonna go create this real estate business and are confident in moving forward in this and why… And some of that, we're gonna have to… I want us to speed up a little bit though, so we don't run out of time, 'cause I know a lot of the listeners are gonna wonder how you got to 950 units in 12 months and are able to have the capability to raise many millions of dollars in a week or less, and that's what many of them are wanting to do, right? So let's fast forward a little bit or give us some steps that you took next though, that got you to where you're at now. You have that ability, you have all these units that sounds like amazing success, but I personally know that that comes with a lot of work or late nights and early mornings and meetings after meetings after I've been there, but…

WS: Tell us some steps. How did you do that?

JG: Like when you mentioned, so I quit my corporate job without purchasing a single multi-family unit, and then in 12 months I was up to 950 plus, and so here are the steps.

Step 1: find yourself a venture or in a safe case go into a coaching program, you cannot do this yourself. I'm sure all your listeners are extremely intelligent, but if you wanna accelerate quickly, you can't do it by yourself, find a mentor. Intern for them, for lack of a better word, work for free if you need to. Get the real-life experience to help them manage projects underwrite, etcetera, Two, network with brokers quickly, it takes a long time to build relationships with the right folks in the field, so you need to start developing that relationship early. Then, just practice underwriting, underwriting, underwriting, Four, I would say is just literally take action. And so I've met a ton of people who have done everything that I've done except for the last step, it's because they just are afraid to leave, and it's just like this invisible line, but once you cross over it, it's just the sky's the limit and then deals just keep coming afterwards. And so in 12 months, I found a whole bunch of faster deals, but I was interested in investing, and I found three deals as a GP structure that I ended up investing alongside with Steve, and so within the 12 month time frame, anybody can do it.

JG: You just have to take action. And so that's kind of the time frame for how you do it…

WS: So finding a mentor or networking with brokers, practicing underwriting, taking action, you talked about the team with the mentor piece… No doubt mentors are part of my team, numerous mentors, most of the time. I've met mentors for lots of different things, so important. Right, and really to broaden your mind to, Hey, let's go scale there fast, we wanna go there together, or whatever that saying is, but tell me though, who were couple of first people that on your team, you hired a mentor, but what were some other people or maybe some key things that you did or team members that helped you to accelerate like that.

JG: Yeah, so first, it's Steve, when he told me that he was retiring last year, I said, I think we need to start a company, it makes total sense. We've been working together for the last better part of the year, we complement each other in styles and values, like start a team, which is the two of us, and then we actually hired on a full-time underwriter and IT tech specialist. His name is Randy. So he's a retired rocket scientist, which means he is super accurate. If he can launch a rocket, he can launch an apartment syndication with us, and so we're three member strong, Steve and I and Randy and we're quickly growing, so we were spanned very shortly with more…

JG: Steve, you also left corporate to go do this, give us a little bit of that transition, and then you also became a mentor, right?

SL: Absolutely. So one of the things while I was working corporate, like I mentioned, I spent a lot of my hours outside of the nine to five focused on family apartment investing, so every Monday I would underwrite deals from probably 8 o'clock to one in the morning, and then I get up again at 4 30 in the morning. I worked in Orange County and I had to commute into downtown LA, and so during that time, I would be listening to podcasts and educating myself further on the entire apartment investing process, so it's a lot of sacrifice that you do after time at all my weekends all of my Mondays, we're meeting with other individuals just to learn more about apartment investing and then understanding how things work and building up a team, and like Jenny said, that I think the team approach is key, especially in syndication, in syndication, most in your family homes, you can do everything by yourself.

Once you move into multifamily, they call it multi… For a reason, you have to have a strong team.

SL: Not only the team members that Jenny talked about, but all of our team members from the lending side, the brokerage side, the coaching side, and so I hired a coach, the coach really just sped up the entire process as well, so providing me videos to watch… I think there were 18 different videos. I watched each video twice just to make sure I understood. In each video, it was two hours long, so the commute helped with some of that in terms of the listening… Really, the firm foundation is key, and then anybody really has the capability of doing that if they put that extra effort in and have that drive.

WS: Okay, so then Jenny started mentoring under you, is that right, Steve? Okay, so you all started working together and it's like, Okay, we've got some complementary skill sets, I think, and we're gonna start this company, Vertical, tell me though, a little bit about your strategy then moving forward, how you all have moved so fast to even be able to raise for a half million in a week, a pretty big accomplishment for no longer than you've been doing it, right. Tell us a little bit about your all strategy to being able to do that.

SL: Well, one of the things is you have to know your partner extremely well, and so one of the great things while I was working corporate America, Jenny had retired from her corporate job, and so she was basically working side by side with me and working on the entire operations of all my current existing real estate syndications and joint ventures that I was on, and so that helped a lot in getting to know Jenny, knowing where her strengths played, and she showed that she's super strong on the asset manager side, super strong on the operation side, so then bringing it all together, we collectively, we brought our skills together and then started Vertical Tree Ventures, and the strategy that we had was really to focus on driving our network, both of us had a corporate America network that was there, we want, me personally, because of the roles that I had, I did not tap into that network, no one actually knew that I was investing in real estate, was an apartment investor was apartment syndicator. I kept it pretty quiet based on the role I had, and then now I have individuals that… We used to be competitors, used to be vendors, they're all reaching out to us similar to Jenny, and they want to know what was that secret sauce that we had to leave corporate America number one, and then two…

SL: They wanted to duplicate that. So we see a lot of individuals wanting the exact same thing that Jenny described at the beginning here, and then that allowed us… On our most recent deal, we've basically had a 2X in terms of our race, we need to raise about 45 million Whitney, and the soft commits, that were way over 10 million in less than a couple of days, which we're very grateful for…

SL: Yeah, that's a big accomplishment. There's not many that can do that. Took us a while to be able to do that, and I guess everybody's wondering though, how do we do that right, how do we build those kinds of relationships, how do we build that almost fear of missing out. It sounds like, how do investors want in that fast… We've had to take a lot of measures to ensure like all investors know at the same time, 'cause many websites, deals fill out before they get in or… It's a great problem to have, but it is a problem and a blessing, but how do you get to that point? How did you all do that? Why did they want in so fast, how were you able to raise that much money that fast?

JG: So our biggest networks are obviously our corporate networks, first mindset, that's a huge avenue for us, but separately, over the last year, Steve and I started a Meetup, we host the meet-up every month where we get lots of folks joining in, and we love to coach ourselves and talk and teach and share and we apply, so all of this huge network of other investors around the country join us every month to learn and educate themselves, and so we build that network there. We also have, from our previous syndications, we try to do the best that we do, create big fans of our core investors and it's through word of mouth that gets our name out there as well, and so we have a lot of fans from that standpoint, and then third, we've popped on a few of these podcasts just like yours, to get the word out, because again, we love to tell people and inspire people to do what we do, and live a lifestyle that we live, and so through these podcasts too, we are getting a lot of folks asking us, can we be part of the deal as well? Those are kind of the four, what I say, three or four different routes that we take right now to expand our reach.

[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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