The Active Investor Toolkit

You decided to learn more about this path because you want to be an active investor in multifamily - an operator. Great! It is a fantastic way to build wealth and create a solid financial rock to stand on. It is not easy but with focused action and grit, which Angela Duckworth the author of *Grit: The Power of Passion and Perseverance* defines as the passion and sustained persistence applied toward long-term achievement, we will get there together.

See I am in your shoes right now. I don't currently have a large multifamily property in my portfolio, but I am taking the necessary steps to acquire one. I am focusing my actions and applying my grit toward scaling my real estate business and starting my multifamily journey. If being in the military has taught me anything it's that through focused action and grit, you can accomplish anything.

I am documenting everything I have studied and begun to apply from those inside and outside of my network who have achieved massive multifamily portfolios in the hopes that I can help others along their own journey. For me it is a journey to *financial freedom*. I grew up in a broken house without both parents, coming up in the Great Recession where my single mom always had to work low end jobs to support us. I was oftentimes by myself and frequently saw my mom struggle with money. Even when she got it, she blew it. I knew I wanted something more. So I set myself on a path to financial freedom so I wouldn't have those same struggles in my adult life and so that I could be there for my own children when I have them. In addition to my family, I am also a free spirit and want to be able to do what I want, where I want and when I want. I want to create a lifestyle where my money works for me. So naturally I chose the military right off the bat (sarcastic because I gave up a lot of freedoms at first, but it worked out) and went into the Air Force after receiving a football scholarship offer to the United States Air Force Academy. While at the Academy, I read Rich Dad Poor Dad and chose real estate to begin on my path to financial freedom - specifically multifamily real estate to leverage economies of scale, increased efficiencies and bigger payouts. Shortly after I graduated I bought my first single family property, then my second, then my third, and so on and fell in love with the ability to cash flow and wealth with real estate. Somewhere along the

way, I realized I could refocus the effort I was putting towards rehabbing hurricane damaged single family homes and small multi-unit homes and knockout much bigger deals, yielding much bigger results. That was my epiphany to begin with multifamily.

In this toolkit I am going to lay out the steps you need to take each week when getting started, and then continually after that, to get your active investing plane off the ground and soaring towards financial freedom (just a little Air Force reference for you all).

<u>Week 1</u>

1. **Find Your Why** - Start with your Big Why. This is the reason that drives your action. For me it’s financial freedom. Without it you will be like an airplane flying to its destination across the country, but in route gets, say, one degree off course and as a result ends hundreds or thousands of miles off course from where it intended to go. Let your Big Why be the Pilot’s hands on the control stick that makes little adjustments to keep you on course so that you reach your destination. If you haven’t yet - sit down, think about this, and write it down.

2. **Set Your Goals** - What do you want to accomplish? Do you want to close on 100 units in the next year? Do you want to have 500 assets under management by the time you are 30? Both are good goals. But how will you get there? The answer is by breaking it down into digestible chunks. Once you have your Big Why, you set your goals to get you there. And you break down those goals into smaller, more manageable goals so that you can make measurable progress along your journey. Without smaller goals you will feel frustrated by your seemingly lack of progress towards your big goals. I recommend setting daily, weekly, monthly, quarterly and yearly goals to get you where you want to go. You should spend the most time acting on, reviewing and working towards your daily and weekly goals while periodically sticking your head up to measure your progress and making small corrections to meet your next upcoming larger timeline goal, all while letting your Big Why guide the stick that determines your actions.

3. **Educate Yourself** - This is an ongoing process, however, you need to build the knowledge upfront to be able to jump in with a certain level of competence.

Spend as much time as you can in the beginning to get your feet wet with all the ins and outs of multifamily. My hope is that with my blog I can be an educational source for you. Also check out BiggerPockets and read all the books you can on multifamily investing. Learn the terms like NOI, Cap Rate, Debt Service Coverage Ratio, Gross Effective Income, and all the others that pertain to multifamily investing so that when you read about them or talk about them with other people you can know what they are and how they contribute to the deal.

Week 2

1. **Visualize and Define Your First Deal** - Think about and decide what your first deal should look like. Pick an ideal first deal that is achievable yet pushes you to get uncomfortable to a degree. If it is your first purchase and you think a duplex is achievable yet pushes you to go through the process of getting preapproved, closing the deal, placing and managing a tenant, and operating the asset for a profitable return, then do that. If you want to go bigger than a duplex but think 50 units seems too audacious for you, then shoot for a medium sized asset that you believe you can achieve. This comes from your personal preference and confidence in your ability. The more thorough you are in step 1 though, the more confident you will become in your ability to tackle a bigger deal.

2. **Establish your Investment Criteria**
   Neighborhood Class - Represented by A, B, C or D. A neighborhoods are your nice, new neighborhoods with all of the amenities and D neighborhoods are your war zones. You pay more for A areas and get less of a return but also less risk while you pay less for D areas and get a higher return (potentially) but also have high risk.
   Property Class - This class representation is much like neighborhood class, following A, B, C and D classification. As you descend property class price decreases while risk increases.
   Number of Units - This is where you want to pick a size that you believe is achievable but also forces you to push yourself to grow.
   Condition - Decide your tolerance for and ability to handle big projects. Do you want to find a beaten down property and reposition it? Do you want to find a decent property with deferred maintenance and make a value-add play? Or do you want a turnkey property that provides less risk?
   Property Type - Decide if you want a high-rise, garden style, or drive-up unit style. Your market may choose this for you, if not pick what is standard for your market for now.

<u>Week 3</u>

1. **Select Your Target Market** - When starting, out the most important thing to consider is how well you know the market. Select either the market you live in, the market where you are from (if different than where you are), or a market you

like visiting. These are markets you have familiarity with and insights that can give you the competitive advantage. When making the decision of which of those three markets makes the most sense, consider the following:
-Desirability
-Diversified Economy
-Population Growth
-Job Growth
-Rent Growth
You can select more than one of the markets from the one you live in, one you know, and one you visit and like but in the beginning try to keep it simple. Don't overcomplicate it and give yourself analysis paralysis by analyzing every market and submarket in the U.S. hoping to find the perfect market to invest. Find one or more that you know and that work with the above factors considered and GO. Remember, *focused action*.

Places you can find data:
[Census.gov]
[City-data.com]
[Bestplaces.net]
[Marcusandmillichap.com]

2. **Analyze 10 Deals to Gain Confidence**
Analyzing deals is an important process in your development as a multifamily owner. Like any skill, and it is a skill, the power is in repetition. Bruce Lee said that he would rather practice one kick 10,000 times that 10,000 kicks one time. Hopefully it doesn't take analyzing 10,000 properties for you to get a deal, but have the *grit* so that even if you do you will keep analyzing. It is a numbers game and the more you analyze, the more you will find suitable to offer on, the more

you will get accepted, and the more you will close on. In the beginning start analyzing and build the skill to recognize a good deal when you see it. Either build your own analysis tool on a spreadsheet or find one online that you can purchase from someone who knows the formulas - either way, start analyzing.

Week 4

1. **Create a Sample Deal Package**
   This will be an important step for you to think through every aspect of your deal and also for potential investors when you show them what an opportunity investing with you will look like. You will want to have this created because 99% of you will need to raise money. In it, you will outline a potential deal. Start with a picture, the number of units, the price on the cover page. Then develop and executive summary of the opportunity. Next you want to dig into the plan including the financials, timeline, funds needed, etc. Be specific enough that an investor could picture themself actually investing in this deal. You are not selling anything, but providing an opportunity for people.
   Why you need to raise money:
   - To do deals at all - It's hard when starting out to close a million dollar property with your own money, so raising capital helps you get into the multifamily space
   - To do bigger deals - When you combine the resources of others, your combined effort increases the size of deals you can tackle
   - To do more deals - When you have access to capital you can do more than one deal at a time and get the deal flow going
   - You help others - as the operator you provide solid investment opportunities to your investors, don't overlook that

   There are things to consider when raising money:
   - You are now responsible for other people's returns, so you must make every decision through stewardship to your investors

- You give up some profit - I would challenge you to think of this as a good thing, however, that you get to spread opportunity to those who otherwise not have been able to achieve the returns you can provide.

2. **Find and Attend a Local Meetup** - If you haven't already, you need to begin attending a local meetup in order to network with other potential investors, partners and mentors. These are fantastic opportunities to meet people in the business and bring awareness to what you are doing. Give value to them, be consistent, and be friendly at your local meetups and good things will come.

Now you are about a month into your journey. You have made a ton of progress thus far and are hopefully, educated enough, prepared enough, and motivated enough to jump in and start taking the actions that directly drive your results.

From here on out the things you need to continually be doing are:

1. **Analyzing Deals and Making Offers -**
   Keep the top of your deal funnel full - Networking with Brokers will be your main focus in this category. Treat your brokers like gold and foster your relationship with them. If they like you and you convince them that you are competent and can close they will begin to send you deals, ideally off market deals. Look at every deal, even quickly, and give them feedback. If it does not meet your criteria, thank them and reinforce your criteria. If it does meet your criteria, dig deeper and find the price you could pay for it. Likely the price you could pay is lower than the price they are advertising. If it is, give a quick "offer" by telling them the deal fits your criteria but based on [Whatever reason - could be that actually expenses are higher than reported expenses, the advertised cap rate is too low, etc.] and give them that feedback as well. Ask if the seller is flexible at all. This begins your informal offer process. Whether the deal is good or not, give the broker feedback. Most people don't, so be the one that stands out and show your consistency, they will likely reward that with better deals. And by reinforcing your criteria you may begin to receive the deals that better fit your criteria, so communication is key to keep your deal funnel full.

Search for deals from every source to keep your funnel full. Look on craigslist, realtor.com, online auction websites, the classifieds in the newspaper - anywhere a multifamily deal may find itself being advertised.

a. Analyze deals consistently
   Using whichever financial model you decided on, consistently use it to consistently analyze deals. If you don't know which one to use, check out the resources page at multifamilyjourney.com to see the one I use and have found very effective. Know what metrics you are looking for. I shoot for at least a 12% IRR and 12% Average Annual Return. That's because the stock market returns around 6-7% on average and I want to about double that to provide an attractive investment.
b. Make offers on the deals that look promising
   If a deal that meets your criteria looks like it could pan out, put in an LOI! You have to swing the bat to hit the ball.

2. **Meeting/Talking with Potential Investors**
   Networking is ever important for multifamily investing. You should constantly be looking for new potential investors to meet with, or set up phone calls with, to talk about the possibility of them investing in your deals. The trick is to not come right out and ask them if they want to invest in your deals, but build a relationship with them. People want to invest with people they know, like, and trust. You will find it hard to get investors if you fail to establish these three things. Get to know them, be likeable, and build their trust. You do these things by being authentic first and foremost. Do not try to become something you aren't - people will see through it in a heartbeat. Be you. Also be honest and transparent about your process, do not try to present 25% IRR projects if you have never done a deal because you probably won't be able to deliver. Always under promise and overdeliver. Lastly, an important point is that you are not selling your investment. You are presenting an opportunity to invest that they otherwise may not have had without you. You aren't there to sell them on something because you should be providing what they already want - safe, consistent returns. Have confidence in that fact.

3. **Building Your Team**
   Who your team will primarily consist of:
   - Property Manager
   - Real Estate Attorney
   - SEC Attorney (when syndicating)
   - Commercial Brokers and Lenders

- Appraiser
- Inspector
- Insurance Agent
- Partners
- Coach/Mentor

You will need to find the best people to work with. This may be hard because the best people want to work with the best people, and so far you haven't proved yourself. That is why it is so important to network, ask for referrals, and treat all of the people on your team like gold. Ask other investors who they use for each of these people on their own team. Pro Tip: When you talk to a new potential team member, ask them for another professional they work with that they would recommend. For example, ask your brokers for a lender recommendation, and then ask that lender for another broker they like working with or a property manager and keep repeating the process.

Committing your first four weeks to educating and preparing yourself for your multifamily journey is key. You have to make the decision upfront and change your mindset towards massive action, that is the only way you will get massive results. Then after the initial phase you will begin on the three action items that will directly drive your results. Each is broken down into digestible action items but in whole they are like the sides of a triangle, making the base of your multifamily journey. Direct the bulk of your effort on these three things and good things will follow. It is a grinding process, but that is what I love about capitalism - only the ones that work for it climb to the top. You can be that person. Focus your action and maintain your grit on your journey to financial freedom through investing in multifamily assets.

If you have any questions, schedule a call on the connect page a multifamilyjourney.com or email me at blake@multifamilyjourney.com.