Voiceover: Welcome to the REI Diamonds Show with Dan Breslin. Your source for real estate investment jewels of wisdom.

Dan Breslin: Adam Gower, welcome to the REI Diamond Show. How are you doing today?

Adam Gower: It's really good to be here. Thank you so much for having me, Dan.

Dan: Yeah, a hundred percent. I was excited to come on this episode, doing a ton of research, ton of directions I would love to go in on today's episode. To get us started, location stamp, I'm in Chicago and you are?

Adam: Central Coast California.

Dan: Okay. Is that where you've been for a while, or do you kind of bounce around?

Adam: Yeah. So, we were based here. Actually, we were living in Beverly Hills. Then we moved here. Then we move back during COVID, and that was three years then. Now we're back here. So, yeah, kind of a bit yo-yo, like, up and down the California Coast. Although I must say, all I ever see these days is the migration patterns across the country. Everybody seemingly fleeing from California all the way to Florida, including some of our clients. So, I constantly wonder whether or not, did I not get the memo? Like, somebody didn't send me the memo about it. I'm not sure what's going on.

Dan: Yeah, I think it's like 105 or 110 in Florida. I was talking to someone who's there this morning, so I don't know. I think it was good memo to miss out on.

Adam: Well, I read a funny article actually. It was very prescient and well-written, but the guy said something I thought was very amusing. He said, "Yeah, this huge migration from New York to Florida where New Yorkers have swapped taxes and taxes and snow for hurricanes and humidity." That's what he said. Yeah, that's basically what you've got essentially.

Dan: Yeah, I mean the savings might be worth it.

Adam: Yeah. I mean, look, there's swings and roundabouts wherever you go. There's no ideal, "I like it here on the Central Coast of California."

Dan: That's right. So, Adam, we're going to get into GowerCrowd, Crowdfunding as our main topic. But before we do it, I thought a cool place to start would be where we are talking about right before we hit record. You have this PhD in an interesting topic. Would you mind briefly describing that?

Adam: Sure. I wrote a thesis that examined how banks underwrote their financing of Japan during the 1904 and 1905 Russo-Japanese war. Oh my goodness, how obscure could that be? What I found interesting about it, why I ended up writing this thing was that when you look at, it's called the historiography, when you look at how people have reported this particular period in American banking history. The way they reported it was that Kuhn Loeb was headed up by - oh they complete it with JP Morgan. And this was in the day of the railroad barons and the robber barons, they were called. And Jacob Schiff and Kuhn Loeb, and JP Morgan, all these guys, they were all part of that party. The historiography says that Kuhn Loeb took really huge unnecessary risks, and I just didn't believe it.

When I got the idea to write this PhD, I was working for East West Bank. I was brought in during the global financial crisis, so 2007-2008. I just thought, no, banks don't take risks like that. They don't just randomly invest because, whatever, some kind of wacky political points of view, which is what everybody said Kuhn Loeb had done. So, I decided to dive into it. And so, what I did was, it was really cool actually, Dan, seriously, I mean, I was able to access all the telegrams that went back... It was a syndicate of banks, the finance Japan. I look to handwritten letters, telegrams that went back and forth, and contracts. They were all handwritten in those days. It was really, really cool. I read all of this stuff that they never anticipated. They never thought anyone will ever read this. I got into all of this stuff. I figured these guys, they were really, really diligent on not only underwriting the risk but making sure, a couple things, one, they made absolutely sure that their investors were going to get their money back. Even if whether Japan won or lost. If you read between the lines here, you can see how this applies to real estate investing. But they were very, very sure that their investors would get their money back because they had guarantees from the Japanese government. And number two, even more importantly, as bankers, and I"ll extend this to real estate sponsors today, they were also extremely careful in the way they structured their deals that they made money, didn't really matter if anybody else did at the end of the day.

And so, you actually see parallels in commercial real estate today and in raising capital line, which is I know is where you want to go. So, we've talked about Japan forever. It is a little obscure, but there are parallels in the way that particularly sponsors have been raising capital over the last, I would say, probably 8 years since the passing of the JOBS Act, when you were able to start syndicating deals online. And how sponsors protected their own interests, if you lift up the hood and look underneath and see what's inside, how they did that really ahead of their investors. And how that is going to be coming home to roost today when interest rates have gone through the roof and there's a lot of distress going to be hitting the market. And what that's going to do is it's going to yield a lot of opportunity for guys like you and me and the people listening, your audience, as they go out there into the market looking for discounted distressed deals. Was that a good enough transition to what you want to talk about? I did that pretty well, didn't I? To get into [inaudible]...

Dan: It was, it was. It was really cool. So, the 8 years, the capital raising, things have happened in that 8-year period. It's been a phenomenal market with a ton of cap rate compression, meaning you didn't have to do a whole lot right. You didn't have to get a fantastic deal on the front end. The market took care of a lot of people just by the nature of supply and demand and the cheap money. The money is no longer cheap. All the listeners know that. You and I know that. I got a 7 to 8% quote on fixed debt yesterday, just to kind of time capsule whereabouts the interest rates are for this episode. If you could give us a detailed example of an operator who might get in trouble, who structured one of those deals. What did the sponsor do? Why was it balanced in a way that wasn't, I don't know, strong for the future? Can you pull that thread a bit here?

Adam: Yeah, sure can. So, there's a couple of things going on. When the market is a buoyant, as it has been for the last few years, in other words, exactly the point you made, the cap rate compression. So, what that meant was, for that one person who's listening, doesn't really understand the implications of that. What that meant was, the market itself, the momentum in the market were pushing values up. You didn't have to do anything. If you had a heartbeat and a down payment, you could make money. You could go into a building, let's call it a multifamily, but 50-unit, 100-unit multifamily building. You could buy it, and you could actually do nothing, and the value would go up. And then you would exit, and you'd look like a superhero. And so, what happened was you had a lot of people who really didn't understand that you really do have to add value.

When you talk about adding value, it doesn't mean buying, sitting on it, coat[?] a paint and carpet, and then selling it for some huge amount of money. That's not really value add. And so, then, what you had was this kind of snowball effects where people who had been doing that were able to scale very, very quickly because they had a track record. Yeah, somebody that says, and I hear this all the time, "Yeah, I've got a 10-year track record." Honestly, that's meaningless. That means you've just been riding the party all the way. Riding the wave, that's all that's happened. So, you're on a 10-year track. It sounds good, but it's actually meaningless.

And so, what they were doing was not understanding really where the risks were and mitigating those risks. What you saw, for example, is actually a conversation that I had recently. What you were seeing as the major, your tier one cities, your primary markets, as prices started to really go up and cap rates came down, yields became very, very low, what you found was sponsors, these newcomers to the market, looking at secondary and tertiary markets and trying to capture the same kinds of yields that they were seeing in primary markets. So, what that means is they were paying for assets, for multifamily assets in secondary and tertiary markets where they were targeting yields that you would normally expect to see only in primary markets. And what that means is that what they didn't understand is that the fundamentals of secondary and tertiary markets are not the same as primary markets. So, they were overpaying to get the same yields. And when you start to do that, it means that your lift to get to where you want to go, especially when the market starts to come down, is you don't have that [inaudible]. There's no way to lift a property in a secondary market in the same way as you can in a primary market.

For example, what we hear the most, and it's funny, I think you almost alluded to, I'm not sure why the word I wrote on my screen here as I was taking notes is management. Management is a really fundamental part of success. Let's talk about multifamily investing. You have to really know what you're doing with management to be effective. You cannot just delegate that to a third-party manager and hope that they do a good job. You have to be hands-on in order to be able to [inaudible]. I hope I'm not contradicting your own business - forgive me if I am - your own business model. I'm sure I'm not. But you have to be hands-on to be able to understand what's going on with management, to be able to lift the rents the way that you want them to.

And so, that's one of the biggest failures that we're going to see coming home to roost. The reckoning that multifamily will have is going to be those failures to really understand where the risk is embedded in markets that people overpaid for, basically, It's not just interest rates, Dan. Insurance, as you know, has gone through the roof.

Dan: That's right.

Adam: You see insurance has gone through the roof. Taxes. The other thing that people just fail to appreciate, the impact of taxes and how fundamental that can be to the bottom line. And then when you get interest rates going where they are, especially if you bought tempted to just take these short-term interest rates or even variable rates or short-term debt. Assuming that you can get in and out quickly and then boom, suddenly, you end up in the world that we're in now, that's where we're going to see a lot of distress and a lot of opportunity.

Dan: Yeah. And you bring a great point up about management. I have not that many doors. I don't know, 43 or something in Chicago market. I'm happy with my management company. They're third party, but I constantly catching them renewing a lease at $900 when we should have been pushing to 1025 if they wanted to renew. They don't care. They want $199 lease renewal fee. They're not as in tune to the market. They're more afraid that that tenant moves out, and there's a turnover, which probably means more work for them to do the turnover. I'm like, "I don't care. I'm not living off the income. I want the higher rents. I'll do the turnover because then. I'm going to get 1100 or 1150." So, it's a constant push and pull to really pay attention to and make logical decisions with things like improvements to the building.

Another quick example, management sent me, we have a building code violation and there's facade issues. It's going to be like a $35,000 facade issue. A third-party hands-off management says, "Okay, get it done. Let's fix the building code violation." I had to think on it. We're going to get a second estimate for that one. But I'm going to have this brick facade that's going to kind of look ugly at the end. They're going to set up the scaffolding. It's three stories tall. They're going to be out there with ladders. I'm like, there's no way we're doing all this without painting and changing the awning over the entrance way. We're going to get a new facelift here so that we can increase the rents and make a sexier building with curb appeal. But if you're not even thinking about something like that... And that's going to cost another 5 to $10,000 out of my pocket, and I'm investing for the long term. But if you have the hands-off manager who doesn't even have the idea to spend more money to maximize the repair that's required, you're missing an opportunity.

Adam: Well, there's a couple of other things, if I can jump in there. I'm okay calling you, Dan? [inaudible].

Dan: Yeah, Dan is [inaudible].

Adam: It says Daniel on the screen. I didn't want to be rude or anything.

Dan: I just changed that.

Adam: The first thing that I would do and I'm going to move to something else, but as soon as you say you've got a $35,000 code violation, I want to talk to the... Who's the inspector? What exactly is it that we need to do here? I don't know, tell me, what exactly is the code violation and is there any way to mitigate that? Is there some other way I can mitigate that? That'd be the first thing I'd want to do. But the point that you touched on is what's actually called, in economics, particularly in real estate, and it usually applies to real estate agents, single family home agents, and it's called the principal agent conflict.

The principal agent conflict is like this, when you've got a home... Actually, let's use your example. your example is the thousand-dollar rent versus a $900 lease. You got a $900 lease, and you've got an agent there who is paid a percentage, I presume, or is paid some kind of reward for doing that. They may think about it. It's a perfect number you pick, $900 versus 1000, they're making 90% of their compensation, they can do that on day one, to squeeze out that extra 10%. That involves a lot of work. Well, why bother? What's the point? There's no need to do that. If I spend virtually no time to get 90% of my commission just by throwing it [inaudible] and getting a tenant, and I got to work actually hard to get that extra 10%, there's no incentive to do that. That's called the principal agent conflict.

That's why, actually, as a principal, if you're managing a property, you've got a third-party company out there, you have got to work them hard. You've got to hold their feet to the fire or preferably, manage it yourself, which is why remote management, and you're in the area, but especially for somebody who is really trying to scale, this is where it becomes challenging. When you get people buying 100, 200 units because they had a few lucky wins because of cap rate compression, and they buy it in a state, three states over, for crying out loud. This is where you end up with significant problems, and those problems only manifest when the market goes down. It's like Warren Buffett says, you've heard this, "You only know who's swimming naked when the tide goes out." That's exactly what's happening right now.

Dan: That's right. And so, I think it's a good spot for delineation here. With my units, my main business is fixing and flipping houses and doing that at volume. I'm in that business. And for listeners who are paying attention, a lot of times someone's going to build a portfolio of their own 10, 20 houses, 30, and it's going to get them out of whatever their 9 to 5 or their business was before. I encourage the strong management in getting into that business of rental real estate, the way that you describe, very hands on, learn all the details, watch it like a hawk, figure out how to make it perform. Every single penny is going to count, if you're going to get into the business. Whereas my rental property is like a savings account. For me, it's got to be hands-off to a degree. But if it leaks here and there, it's not going to kill me because that's not my business. That's my retirement. That's my savings account, in a sense. I don't think that's going to be most people's mindset toward real estate, but I think it's pitched that way, Adam, as passive income. It's all hands-off, third-party management, the gurus, the whole thing. But get into the business if you're going to buy real estate or as syndicators. And if you'll bear with me, I'm going to describe the syndicator operators and raising money as a segue into our topic here.

But if you're going to be an operator and you're going to buy a 200-unit apartment building, you can't think of it the way I do about my portfolio, like a savings, not hands off. It's not passive. It's very active. And you've got to be in the business watching it, pulling the levers and making that thing highly efficient and running it highly effectively. So, as we get into that topic, because we threw some terms around, I want to just kind of clarify if anyone is listening. So, a lot of times people are getting in the business. We were talking about this before we hit record. Like, "Man, I want to buy apartment buildings someday. I want to buy a shopping center someday." They used to say, Adam, "Oh, I want to own the downtown Skyrise office," but I don't think anyone's thinking that right now with work from home and where that market's at. The operator is the person that finds the deal. That could be the syndicator. That's the person who's running the business of that deal. And then the passive investment is going to come into that.

The operator is typically raising capital in the form of a syndication or they're doing crowdfunding. They're normally taking a lot of other people's money and piling it together to take down the 200-apartment asset for 10 or 12 or $15 million, whatever it is. They're not necessarily they saved up all the down payment the way I did for my apartments and it's just a savings account. And from my knowledge, the majority of the deals we hear about on these podcasts are going to be operator, who is the sponsor, typically. There's, you know, throw[?] the terms around a little bit differently in there. That's the person running the deal and taking the money, and they're taking the money from passive investors. What else would you layer on to that description of who the operators are? So, if someone's listening and they're buying houses and they're starting out, like, "Man, I want to buy apartment buildings," you got to learn to be the operator, the syndicator. That's kind of another next level a lot of people will graduate to in this business, to do larger deals with pooled capital. What else am I forgetting as I describe that role?

Adam: No, you got it. You got it exactly right. I mean, there are some layers that you do need to be cognizant of. By the way, you talked about an operator, or a sponsor. These terms are all synonymous. You're quite right, it's easy to be confused. Sponsor, operator, manager, general partner. All it means is the person who is the professional, the person who is working full time to find deals, put the finance together, and then execute on a business plan, a value-add business plan or whatever that plan is, to add value to a deal or to build something. Or the promoter, you could call it, the person in-charge. Where the buck stops, that's the person running the deal. So, all these terms are synonymous.

The other layers on top of that, unfortunately, they're rather boring, I'm afraid. The first layer is you need to have the right legal documents. I mean, when you start syndicating, and I will also say that the way I'm going to use these terms because I'm not going to get too deep into the weeds on this. But the term syndication and crowdfunding are also synonymous. In other words, they mean the same. For the purpose of our conversation, they basically mean the same. And what it means is, unlike in your case where you use your own money to invest in this apartment building that you bought, as soon as you take money from anybody else to invest in your deal, you are a syndicator. That's it. You are syndicating a deal. One person, two people, 100, or 500 people like our clients; you're a syndicator. If you're using OPM, you are syndicating.

Now, if you want to start scaling and you want to buy 50 units or a hundred units or 500 units or a thousand units sometime in the future, you need to have the right kind of legal documents. And I'll tell you why. Again, slightly boring, but it is foundational. It's very important that you understand this if this is the business you're getting into. When you start doing that, guess what? You're not in the real estate business. Or you are in the real estate business, but you're also in the security business. OMG, because when you start syndicating, the first thing you're going to do is you're not going to buy a building in your own name. There are all kinds of liability, all kinds of issues, tax reasons, you wouldn't want to do it. You set up a small company, set up a company.

Usually, the term of art for that is a single purpose entity, an SPE, or a single purpose vehicle, an SPV. It's going to be a limited partnership or an LLC or something like that. But you set it up. So, it will be a Corner of Walk and Crosswalk, LLC. It's a company. And then that company invest, that company is the one that buys the real estate. And then you, as the sponsor, you have an operating agreement with that company to do all the work, to hire all the subcontractors to get the finance, put everything together. That's your relationship with the company. And when you go out and raise money, you are inviting investors to invest, not in the real estate. That's the business plan. You're inviting people to invest in the company. In other words, you're selling shares in the company. And what does that do? That makes you a securities. These are securities. You're selling stocks. Just like going on to the stock market and buying stocks and bonds. Not bonds but buying stocks or investing in shares. That's what you're selling. So, suddenly now, you are under the umbrella and the watchful eye of the Securities and Exchange Commission, the SEC. And that's why when you get into syndication, you need a securities attorney to help put together the documentation for you, so you can go out and sell shares to individual investors. So, that's really boring, I know, but it is part of the book.

But I'll tell you what, don't be overwhelmed by it. Anyone that's listening, it's the same as hiring a plumber. You need a plumber. You need an electrician. And certainly, my attorney can hear me, comparing them with the plumber. But that is basically it. It's just a line item on your business plan. Legal work, that's all it is. Legal work, plumbing, electrical, roofer, framer, painter, drywall or whatever you've got, and legal. That's all it is. And once you've got that, now, you've got your documents, you can now send that out. You can legally raise money, provided you do it properly. So, that would be the only thing I would say you might have missed from that, is that rather boring line item that gets added to your pro forma.

Dan: Yeah. And the boring line item, I think, if people are hearing it right, so my history, Adam, I mean, I guess most of us start and we're broke. We don't have a lot of money. I had no money, and it was like negative. And then I did well from 06 to 08. And then I crashed down with the market through 12. In 12, I cleaned up my act. I quit drinking, found God, devoted my life. And it's been that great decade that you referenced before. Hopefully, some has to do with the market. Was that at our tail? I think for me, the changes and my commitment and I think the blessing helped through that decade, and we're still blessed to this day. But I think a lot of people, you know, you're flipping a house and you've flipped 1 or 2 or you got 6 or 7 rentals, and here, you're going to buy this $15 million deal and you're going to need $4.5 million in equity to do that. And that's way more than anyone they're going to ever dial up or call. I think that needing the 4.5 million, a lot of times, is a bigger block for people than the 10 or the 15 or $20,000 it takes to set up the legal documents. Because obviously, if I had the 4.5 million, Adam, what's the 20 grand for the legal documentation? So, I don't know that the bigger barrier, I think, for most people, at least for me, was where am I going to get the 4.5 million? And I already did the research. You're the guy who helps people set up the engine to get this kind of stuff going. Would you mind elaborating on the solution for finding the equity for these deals?

Adam: So, I'd be happy to do that. There's been a fundamental shift in the industry. The reason that I have the job, the JOB that I have... By the way, the way I think of it, you asked me, how much do I manage and am I an operator? No, I kind of pulled out a little bit. I got gun shy for various reasons. Obviously, I'm a lot older than you can see. I've got so much gray hair; I shave it off so it's not so obvious. But my first downturn was the early 90s, and I thought I was a multi-millionaire. I was wiped out, like completely wiped out. And I went into debt. I didn't give up drinking then, that's when I started drinking.

Dan: Okay. All right.

Adam: Anyway, I'm not sure how I got there, but it used to be that the only way you could raise money, the law said, and this goes back to the 1930s, 1933 Securities Act. Basically, it said, you are not allowed to raise money from anybody. Because these are securities. These is what we've talked about, these are securities. You're selling stocks. You cannot sell securities. You can't sell stocks in your company unless you do an IPO. Who's going to do it? You're buying a little building at the end of the street. You can't do an IPO, Facebook do IPOs, [inaudible] do IPOs. But the guy buying a multifamily apartment building, Dan, you're not going to do that. But there was an exemption to the law. And the exemption said, "It's okay, you can still raise money if you've got a small company. You're doing a small deal. But you can only raise money from people you already know." Now, you had the term of art is the pre-existing relationship.

When the laws changed in 2012 with the Jobs Act, what that said was, "Okay, now you can raise money from people you don't know. You can go out and sell shares in your company to people you don't already know." Well, what does that do? The effect of that was, to say, "Hey, you can advertise." You can put it on your website, invest with me. You can go on LinkedIn, Facebook, TikTok, Twitter, Instagram. You can go on YouTube, and you can say, "Hey, I've got a great deal. Why don't you invest with me?" Here's why I like this deal, invest with me. You weren't allowed to do that up until 2012. The laws weren't promulgated until 2013. 2014 is a brand-new industry. It's a brand-new opportunity or a brand-new way of raising money. So, that's the long answer. You can tell I'm not very good at short answers, can't you, Dan?

Where that gets us to, though, is it means that in order to raise money for any kind of scale, you need to be visible online. People need to be able to find you online. So, the first place for that is your website. You got to have a website that tells your prospective investors... And by the way, this works just as well for friends and family. Instead of going to all your friends and family individually and saying, "Hey, do you want to invest with me? Hey, this is why I like this. This is why you should." Your whole story, whatever it is that you go out and you tell your friends and family why they should invest with you, phew, I mean, put it on your website. All those different points. Why should you invest? Why multifamily? How? What are the tax benefits? How much should you invest? Put that all on your website.

Now all you need to do is to send an email to everybody, and they can now come to your website, and they can look at it in their own time. If they like it, they'll let you know. Well, if you put it on your website just for your friends and family, guess what? The whole world can see it. Wow. Now what you can do is you can post on social media. You can go on LinkedIn, and you can say, "Hey, look, this is the business I'm in. Check out my website. Go to this page to learn how we make money flipping houses, or how we make money in apartment buildings." And now people that you don't know start to become attracted to you. It's a magnetic attraction. They start seeing all these returns. And keep in mind that there will always be those people who think you're a total loser. That's just the way it goes. Including probably, your friends and family.

Some of them like...

Dan: [inaudible] family first, right?

Adam: Yeah, right. It's like, "Oh my goodness, every time we see him, it's all he talks about, is his bloody deal."

Dan: [inaudible] about the apartment building.

Adam: "He wants me to sign a check, and just don't have him over for dinner again." There are always those people. That's the same in the broad population. But the key thing is, and this is just a statistical fact, if you remember the bell curve. I don't want to get to high school on you. But the bell curve, for those that don't like, on the left of the bell curve, guess what? There's always somebody who is dying to invest with you. So, you focus everything you put on your website, everything you put on social media. Don't worry about the people, they call them in the political world - we're not going to go into politics - but the haters. Ignore them. They don't matter. They're not going to do anything. It's the people that love what you're doing that you focus your attention on. Because why? Even if there's only a few of those that pop up, those are the ones that will change your life. They will invest with you. They will love what you're doing. And if you treat them right, they'll invest again and again and again. They'll introduce their friends. And that's how you scale. That's my version of a short story, forgetting to scaling.

Dan: Yeah. And I think the one to many is such a concept for me that one of my mentors, Dan Kennedy, had always talked about. Get this network, he calls it, your herd. It's like if you had a herd of cattle, you would have steak forever. You would care for the herd. You would feed the herd. You'd make sure the herd had a fence around them, if you will. Man, so much more challenging to raise money the way my original mentor told me 6 or 7 years before Dan Kennedy, which was make a list of ten people who have money, put their phone number on the list, and then start dialing. Well, man, you get the first one, they tell you no. The second one tells you no. The third one tells you no. It's demoralizing. You're not even calling the fourth one.

And then I had another mentor who told me, "You got to start a money list. You got to do this early, way before you need the money." I waited two, three years before I went to MailChimp and created a free email list, and then individually started putting names on there who might be people who would fund my deal. It took me another year or two after that, Adam, before I put up the stones to ever email out a deal to them. A very simple way to do that, for anybody listening, you can steal what I've done at fundrehabdeals.com. That's where my investors go. They listen to the podcast. They download it. They see what for our fix and flip business. These are one person loans. A lot of people are flipping houses. You can kind of set the template up in that same manner. Now, mine is completely passive, I'll call it. It's like we're sending out deals. Real estate agents sign up. It's passive. We're sending out...

Adam: Tell me the websites again because you want everybody that's listening to remember it as well. But I'm going to look [inaudible]. So, can you say it again?

Dan: Fundrehabdeals.com.

Adam: Beautiful. Okay.

Dan: But that's my very basic, you know, how we fix up a house and borrow 150 grand. We only take money from accredited investors. We don't take money from people who it's their life savings. And we're doing that for a reason.

Adam: Right. But you were talking about the scaling and the comparison with your mentors and everything.

Dan: That's right. So, we probably send, I don't know, six deals out a year or something, out of the hundreds that we do. Most of them we're doing with our own cash, or I have a network of people, by text message, who are now, "Hey, Dan, I got a quarter million. Let me know if you got something." So, most of our deals are kind of funded quietly that way. But I say that's passive, Adam, because I've never spent a dime in advertising to get people into that funnel. Fundrehabdeals.com as a funnel. People can go there while I'm asleep. They can get the automatic email drip that talks about how the deal works. I think I include a podcast in that email drips. I'm doing a little bit of the value build. It's very basic compared to what I'm going to have you dive into for your ground up system that you do for people who are raising multiples, if not exponential multiples of what I raise for my deals.

That's all passive. I've never spent a dime. We spend money in advertising to find our deals. We do a lot of direct mail, digital marketing, the whole thing. I know the power of advertising. And that's why I was so excited to have you on the show today because you've got this funnel with content, with advertising package, that you can nearly flip a switch. There's obviously a lot of work in putting that together, building it, maintaining it, and growing your own brand. But to amplify your message with paid advertising, that's how you scale beyond organic growth, right?

Adam: Yeah, that's exactly right. And I'm super multitasking here, though. You mentioned, and it's beautiful. I love your website. Actually, interest can actually redirect me to something else here. Or did it? Maybe not. But you talked about Dan Kennedy. So, these tactics that you're talking about for raising capital... Obviously, I'm missing your question completely. Because it's such an interesting point that you brought up, is that these tactics that you're describing for building a list, basically, what you're doing is you're teaching somebody. You're providing something of high value. You provide something of high value, that's exactly what this landing page was that you described, and that I managed to navigate completely out. Why did I do that? It did take me to the right page, but it's actually redirected me to diamondequity.com, something else. But that's the name of the webpage. So, you've done it very nicely.

But if you do go to that landing page that Dan mentioned here, what he's got there is a lead generating form. If you want this cool thing that Dan is offering here, you have to fill out a form. And as soon as you fill out the form, you're going to get that cool thing. But you also go on the mailing list. And now what happens is, there's a nurture process, that you're going to nurture people, hopefully, to do something else, whether to invest with you or buy something else from you, et cetera. That is the mechanism. That is exactly how anybody listening can scale their capital raising, because the same thing applies to investors. You give them something of value.

You could give them a case study, or you could explain how you do investing, or whatever it is. You give something, it's called a lead magnet. You produce a lead magnet to capture somebody's name. Then you can nurture them. And this is how you raise money from investors.

The reason that I kind of took that attack, if you like, and picked it up from what you said about Dan Kennedy, is that these tactics, go back to the times of my PhD, the period that I looked at, the early 1900s. The 20th century, latter part of the 20th century. Latter part of the 19th century, so the 1800s. And the tactics that they employed to sell stuff through direct marketing, but they'd send out millions of letters, like literally send out millions of letters. And if you really want to study this, I'm sure you've done it, if you've read Dan Kennedy, you've read some of his mentors, kind of the books that he's read. You've probably read the Robert Collier letter book, which is an amazing book, or, and I've got them all here, actually, My Life in Advertising, John Hopkins.

Dan: That's right.

Adam: This is where they all started. And the tactics for attracting investors haven't changed. It's just the medium. And the reason the tactics and strategies haven't changed is because human psychology hasn't changed. The same triggers inspire people to act and do things that you want them to do, and to ultimately buy what you want them to buy because human psychology hasn't changed. All it's changed is the mechanism and the tools that you use. So, instead of sending out a million letters, as they did in the early 20th century, early 1900s, today, what do you do? You send out an email. Oh my goodness. But the same things work. Or you go out on social media where you become visible, and you redirect people to a landing page, like your landing page that has a call to action, a form to fill out to get something cool. It's the same thing. It's all the same things. It's not that difficult. It's been done. You're just applying it to commercial real estate capital formation.

Dan: Yeah. And I would say a thing for listeners to look out for is when you are... And again, I'm not this operator who has a billion dollar fund right now. That's not the business that we decide to put together. A lot of my friends are, and I put my money alongside theirs and invest in their funds. What I've noticed over the years is there's a chicken and the egg problem. It's really hard sometimes to raise the money without a deal. If we go to you, Adam, and you build us the money raising side, we do have a chance to kind of start, to talk about raising money and warm people up to the idea so that we now have the confidence. It gives us the confidence go out and make the offer on the 8 million, 10 million, 12-million-dollar asset. Because that first one is going to take a very big leap of faith for most people. And it's different if you've got this guy who's got $40 million, you're going to write a check. And he says, "Yeah, I'll do it," that's going to give you a huge vote of confidence.

But for most people, they're going to take the money from 10, 20, 30 people. They're going to know two of them. The rest of them are going to come from the email list. And so, you got to put some effort, time, and money into building the funnel, the presence, the brand, the email list, and the herd, if you will, to be able to send that email, that deal out when you get it. But on the flip side of that, there is the danger of sort of getting stuck in the fantasy for people, where they're spending all this time on the funnel, and they're spending all this time in the brand, and then they never get a deal. So, you just have to watch the balance. Because an operator finds one deal and never finds another one. Maybe it changed their life and they're set. They're totally done. But now, you don't keep building the brand. If you never have any deals to send out, eventually, you'd fall off the radar of the people...

Adam: Dan, I'll tell you something, absolutely. I mean, you've hit the nail on the head. When crowdfunding started, when online syndication became legal in 2012, I wrote a book called Leaders of the Crowd. It was published by Palgrave Macmillan. I interviewed people in the White House, in Congress, lobbyists, and early adopters. So, Jilliene Hellman, who founded Realty Mogul, and Adam Hooper, actually, who founded the real crowd, and some of the other people that founded these crowdfunding platforms. And the biggest challenge they had getting going was exactly what described, chicken and egg. Do we go after investors? We go after investors. We got all these investors there, but we've got nothing to offer them.

On the other hand, if we go out and find a sponsor who's got a deal, when we put it on the platform and nobody invests, we'll never go back to that sponsor. So, it is this chicken and egg. And really, you've got to do it in parallel. You got to do these two things in parallel. And then when something hits, when something strikes, I should say, and you get to a lucky win or whatever, something hits, that's when you go into overdrive. But I will tell you is, I was invited on a show... And we should probably start looking towards wrapping up. I don't mean to be rude, but I don't want to bore anybody by going on for too long. But I was invited onto a program. It was a whole thing where it invited dozens of people. This guy [inaudible]. How do you raise 5 million in 10 days? How do you raise 5 million dollars in 10 days? Well, I don't know. I listened to all the other people, these great ideas.

Frankly, it's unrealistic because the only way to raise 5 million in 10 days is start 12 months ago. That's how you raised 5 million in 10 days. You just got to realize, it's a lot, you're playing the long game. You start and you build. Just start with something basic, get going, start the ball rolling. You will be able to do that but be patient. To win at real estate, you got to have patience. You're going to realize it's a long-term game.

Dan: Before we do go to our wrap up section, Adam, Gower fund?

Adam: GowerCrowd.

Dan: Gowercrowd.com, really interesting. It shows you the funnels, gives you all the stuff that's behind you there, for the people who are watching the video versus listening. I put together [inaudible] words just like that on my own to kind of construct my basic funnels. The funnels that you have are a lot more complex and robust. What would an operator or someone with the ambition to become an operator, what type of a budget would they expect to have, to have on the front end to get into that by using a service like yours? And then what will be the ongoing monthly advertising budget where this has some sort of momentum? If this is something that's going to happen, we're going to raise to 5 million, 12 months from today.

Adam: All right. So, just to contextualize our business, our clients manage 35 billion, with a B, of assets under management and have raised around over a billion dollars in equity. We kind of planted in a small pool of large fish. But I can give you their numbers, and then I'll answer you.

So, your typical cost of capital, if you advertise, and you've got the right systems in place, it's going to cost you around 4%. It's going to cost you 4%. If you want to raise 10 million in paid advertising, you're going to be spending around between 300 and $400,000 just on the advertising. But that's just for your first deal and to get your first set of investors in. Oh, and by the way, it cost between 3500 and $4500 to get an actual investor. That's through paid advertising. It seems like a big number, doesn't it? 3500 to 4500 to get an actual active investor. But how much does it cost to get them to invest the second time? Zero, because all you do is send an email. So, the lifetime value of that person is huge. It doesn't mean you need hundreds of thousands of dollars.

I would say if you want to get into this, and you said it, so I'm just going to parrot what you said, Dan, steal Dan's page. Go to the page that he recommended and just create your own. Just like that. That's all you need to do. Get some information out there, start giving value to people, start being active. You can go on podcasts. One of our clients goes on podcasts. She's a Farmers' insurance agent. When she came to us... And we have a program we charge 15,000 for we can help you build everything that you need. I mean, really, really super advanced, state of the art. And we can also sell courses as well. That's about 5000. But I'd rather you get involved in something that I can be sure you're going to be successful with, but we can do it. You could sell your course, and we could guide you. If we do it for you, it's a lot more expensive. But I asked that.

Dan: And just to make a plug, for the listeners, we didn't do today's show. This is not like a webinar sales pitch, [inaudible] affiliates. I just wanted people to kind of get the context, Adam, so that if someone's already up the curve, and let's say they've been doing some deals, and they're getting ready to amplify it, these numbers are very helpful to be able to put those line items, in like we talked about. And then that way, if someone is sort of dreaming to really build a business of funding deals at a large scale, they can know what the cost is to kind of assemble this. Like you said, you can do it for free, and you can hobble it together the way that I did. And it's been totally effective for me. Although I'm not in the business of doing 10 or 15 or $20 million raises for these really large deals. I just wanted that word of this is not a sales pitch, guys. There's no link coming up here. But I appreciate the candid disclosure, the fees, if you will.

Adam: Yeah. But I do want to leave your listeners with some optimism. It's not so huge. Let me just finish this idea with this one lady who came into our shop. She'd raised 50 million, 5-0, $50 million for multifamily acquisitions. She wasn't the operator. She was just the finance side. That's what she was raising. She had almost no experience. This was her transition from being an insurance agent into real estate. I asked her how she did it. She said, "I go on podcasts." That's what she said, "Go on podcasts." How much does it cost to go on podcast? Zero. It cost you nothing to go on podcast. No one charges. Nobody charges because it's our pleasure to have guests. All she had was a rudimentary basic website that explained what she did in multifamily, how she made money. And she went on podcasts, and she raised 50 million. So, you can do it, [inaudible] say, cobble it together. You got to be scrappy, if you want to do it effectively. If you're not going to have money to start with, you've got to get creative. So, you can just go on podcasts, but you got to have somewhere to send people like you do. You got to go to www.mywebsite.com. And there, that's where you capture names, and you got the bits of information, and then you go out and publicize it on podcast. It cost you next to nothing to do that.

Dan: What would you say the ideal time for the funding person, if they did want to engage a service like yours? Your avatar entry client that comes across your doorstep, are they two or three deals in? Are you having people as zero deals?

Adam: Yeah, I think, for somebody that has no experience at all, and who was just thinking about getting into it, we're really, really advance.

Dan: That's right.

Adam: We are the foremost agency for major sponsors in the country. I would say that the people that come in that do our syndicator program, which is a 12-week program, we show you how to do it. Those who have experience, they probably got a website. Well, they almost certainly have a website. Or those that [inaudible] those, that don't have website, we've even had family offices, Dan. There are multi-hundred million dollar offices that come through that. They even have a website. You can't find them anywhere online. It's crazy. So, you don't really need it. But it's probably better to have a website that has some kind of story on it. That is a foundation that you want to take to the next level. That's really the best. That's kind of the minimum standard, I would say. I shouldn't really say that. I don't want to put people off, but that's really the minimum standard.

Dan: [inaudible] kind of clarify it, because we have people who are someday going to do this, but you probably have another learning curve in front, versus taking a dive into a program or hiring an agency. They probably need to know what the deal will looks like. Chicken and the egg kind of thing.

Adam: Well, hiring us to do this is like buying a Ferrari to go to the store to buy your groceries. You don't really want that. But we do have the pickup version. So, just kind of get down and dirty and build something. Again, I know it's not a pitch fest, but If you do go to the website, gowercrowd.com, there's a million words of content on that website. I mean, it is one of the ultimate resources. I remember when I first started this, I don't know, 8 years ago or so, I started saying this grandiose way, "We are the ultimate source for everything you need to know about crowdfunding," even though I had almost nothing on the website. But I was building stuff on the website. And now, we really are that source. I mean, there is almost endless amounts of stuff that all free. Basically, it's all free. So, it's really a good start and get a sense for it.

Dan: I think I saw something like 1200 videos, somewhere.

Adam: Oh, on YouTube, probably.

Dan: Yeah. That's some insane number. And I'm like, I'm sorry, Adam, I'm never going to watch...

Adam: I know. But there's also a search bar on the website. There is a search bar. Because I started, going, "Where the heck was the article I wrote? I need to refer to it." And I could never find them because there was so much. So, we put a search bar on the website so I could find stuff. Then there's a whole training section as well. Again, most of it, 90% of it is free.

Dan: Yeah, you can deconstruct and put together a system that's better than the one that I have, that I shared at fundrehabdeals.com. You can build a better system than that yourself, looking at the information that you put out there. So, it is a really cool resource that you have there, if you take the time without having to pay a dime. All right, cool. So, Adam, we covered a lot today. You did mention a few books, but I'm curious if there are one or two others that have been really impactful for you or you think would make sense to share in the context of our convo?

Adam: Yeah. We've actually mentioned them. I think that the Dan Kennedy books, I forget... I've got it here. I've been looking at all my books here. The Dan Kennedy is good. How to Write Sales Letter. There's letter that sell [inaudible] is good. Oh, gosh, I've got so many. I can't see the Dan Kennedy one. Dan Kennedy's books are good. So, I would say [inaudible]

Dan: Oh, yeah, all Dan Kennedy's.

Adam: The Ultimate Sales Letter. [crosstalk]

Dan: That's right.

Adam: This is a really good one. This one, The Ultimate Sales Letter by Dan Kennedy. You got to read this. This one's amazing. A lot of my funnels are based on the long form sales letter that Dan Kennedy writes. This is a really good book. This is your recommendation, I'm going to say that as well. That's a good one. What else is a good one? Let's have a look at it. I'm a historian, so I love the historical books. I love the Robert Collier letter book. Here, this is why you should buy it. This how I can prove it. See the spine on that? You see how it [inaudible]? That's because I've read this one so many times. I keep going into this one. This one was written in 1920, I think. And look, there's all kind of... I've got notes scribbled on it. It's called the Robert Collier letter book, and the Dan Kennedy. I'm sure I got that from Dan Kennedy.

Dan: Yeah, that's where I found Robert Collier.

Adam: You did? Right. So, this one is a good one. And also John Hopkins. And his is called My Life in Advertising and Scientific Advertising. They're kind of old school style writing. But what's cool about them is that when you've gone through these, you realize that what we're talking about today, Dan, is nothing new. It's nothing new. It's been done. It's been done for hundreds of years, or at least over a hundred years. You're just joining the party. That's all. It's a lovely thing. So, those would be books that I would recommend.

Dan: Yeah, it's pretty cool. I think that's the first time on my podcast we touched on specifically like the sales letter thing, sales letters, direct mail, copy, advertising people. "Hey, how'd you get here? How did you become successful?" "Yeah, there's real estate, there's comps, there's days on market." But the real magic in it is in advertising. And most of the times, I think that just goes over people's heads. "How boring is that?"

Adam: No, but it's the core of everything. There's nothing that I do that is actually new. And again, I'm still scanning myself here. There's nothing I do that is actually new. It's just new to commercial real estate, to raising money for real estate, because it was never allowed. It's only just recently been allowed to apply these taxes. That's how I thought, "Oh, this is fantastic. I want to know everything there is to know about this." That's why I read everything.

Dan: Yeah, it's funny, like, I know we didn't touch on it today, one of my other mentors, Scott Scheel[?], he was talking about crypto. There's going to be this crypto platform, and no one will even go to the bank later, they'll just go this crypto thing. But ultimately, raising money, a bank, the dollar bill, it all boils down to trust. There has to be a level of trust. It's the same reason I've wired off what I consider outrageous amounts of money to sponsors, it's because there's a level of trust there. There's a track record. I know them face to face. And I think a lot of what we talked about with the list and the advertising, a lot of that is the long-term cultivation of trust with the list, to have somebody wire the money where you tell them to wire them. And we could probably go on a whole nother tangent about the power of trust and building that up over time and how that wraps into advertising. But we're not going to have time for all that today, right?

Adam: Well, no, not really. Because you've also got some other questions that you want styled in.

Dan: That's right. So, let's go back to 1990, 1992. I was a kid. I remember it was a rough market. My dad's business was failing, and so was his real estate at the time. I lived it at a young age. But I'm curious, if we could go back, the crown jewel of wisdom for you, if you could share that with yourself in the 90s as things were cratering, what would that be, Adam?

Adam: Oh, yes, gosh, I think about this all the time. It's a lovely little fantasy of mine is to go back in my life with what I know now. And I would say, I would take risks. I would take more risks, actually. More calculated risks than I did. I lost everything. And I was afraid of failure, actually. I'll give you an exact example. There was this little house in La Jolla, California, downtown La Jolla, California. Like, one of the premium places really in the country. It was like a five-bedroom house. It was nestled there downtown. In the early 90s, actually, when I was there in the early 80s, it was just a sleepy, little town. It was lovely. And I had no money at all. I was working for $5 an hour. I did anything for five bucks an hour. And I needed to find somewhere to live. I was looking at rentals, and I found this little house. I looked at it, and I thought, "Goodness me." If I was to rent each of these bedrooms, these five bedrooms, live in one and rent the other four, not only could I cover the rent that they wanted for this house, but I would make money doing it.

I decided not to because in order to do that, I ran the risk of not succeeding. What happens if I don't find other tenants for these four rooms. Now, I'm on the hook, I forget the numbers, for all the rent. And I don't want to take that risk, so I backed off. If I was to go back and do that, oh my goodness, not only would I go in, beg, steal, or borrow the money I needed to cover myself until I rented the rooms out, but I would have offered the guy to buy the house. I would have rented it out, then I'm going to have done it on another house and then another. And then offered to buy it, and then build something from that. But instead, I backed off, because I was afraid of failing. I'm not saying a big risks. This was a calculated risk that I know would have paid off, that I never took. I would take those risks that I didn't take in those days, that I knew would have worked. I didn't have the confidence then. But I know it would have worked. That would be the advice I'd give myself.

Dan: I can relate. I'm sure people listening can too. So, what is the kindest thing anyone has ever done for you, Adam?

Adam: Yeah, I saw that question beforehand, and the first thing that came to my mind was the champions that I have found in my life. The people who have championed my cause. There's always been somebody. I won a huge position when I was at Universal Studios. When I got the job at Universal Studios, there was somebody who just really liked me. Amongst those that thought I was definitely not right for the position, there was somebody who really stood out, fought in my corner, [inaudible], on the board of directors for one of the studios, wanted me to have the position. And I went out of my way to excel and justify their confidence in me. And I've had those champions throughout my life. They're few and far between. But the people that have given me the opportunity to do great things. I'm about kindness. I see it as kindness and kindness because they've seen my ambition and my capabilities when others have not seen it or not wanted to see it. And so, it's finding those mentors, I guess you would call it, but mentors who are in a position to really, not just give you advice, but also give you a leg up.

Dan: They put their reputation on the line at that point.

Adam: Yes, exactly. Right. Yeah.

Dan: So, what should listeners do? I know we talked about the podcast. I think you had mentioned a book that you wrote. Where should people go to get more information, Adam?

Adam: Thanks for asking. So, gowercrowd.com. That's my last name, G-O-W-E-R, gowercrowd.com. And the books that I recommend, they're all on the homepage, the bottom of the homepage. You subscribe to the newsletters. Most of my stuff is free. Subscribe to the newsletter, it's free. It goes out every Wednesday. And then the books are $7. If you don't like the book, I'll give you your $7 back, but the book is $7. And if you really want to see a long form sales letter, just like Dan Kennedy's, that you, Dan, were talking about, all my books are sold using long form sales letters. So, even if you don't buy the book, have a look at the sales letter. They're kind of cool, actually.

Dan: Nice. Cool. I had a blast. A couple pages of notes here. I really appreciate you coming on the show. Thank you, Adam.

Adam: It's been my pleasure. Thanks, Dan. You're a great host. I'm really glad that we did this. Thank you.

Dan: Thanks. Yeah, I had a blast.

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