EPISODE 302

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Jeremy Roll. Thanks for being on the show, Jeremy.

[0:00:32.3] JR: Whitney, really happy to be here. Thanks for having me on, I really appreciate it.

[0:00:34.9] WS: I'm honored to have Jeremy on the show. I think most people in the industry know Jeremy as an expert in this field and in his line of expertise which most have heard him on the show before, our show WS 155 and if you didn't get to hear that, I would encourage you to go back and listen to that as well.

But Jeremy started investing in real estate, in businesses in 2002 and left the corporate world in 2007 to become a full time passive cash flow investor. He is currently an investor in more than 70 opportunities across more than one billion dollars' worth of real estate and business assets. As founder and president of the Roll Investment Group. Jeremy manages a group of over 1,000 investors who seek passive managed cash flowing investments in real estate and businesses.

He's also the cofounder of For Investors, By Investors, also known as FIBI. A nonprofit organization that was launched in 2007 with the goal of facilitating, networking and learning among real estate investors in a strict, no sales pitch environment. FIBI is now the largest group of public real estate investors meeting in California with over 27,000 members.

Jeremy, thank you again so much and why don't you give the listeners an update about what your focus is now or any deals — what's happened recently and then let's dive into this topic of due diligence from a passive investor standpoint.

[0:01:56.2] JR: Sure. Again, thanks for having me on, I really appreciate it. I have essentially, since I saw you last, been mostly sitting on the sidelines looking for what I call like unique deals, unique pricing with some unique aspect to it. For anyone who knows me out there, they would agree I'm ultra-conservative and so I've been mostly on the sidelines plus or minus since early 2017, waiting things out, hoping for an eventual adjustment or change in the market.

I do believe we're going to have an economic downturn coming up here and I am mostly waiting on the sidelines, being more of a happier seller than buyer, so to speak. And making investments but they're really hard to find and so many volume is definitely much slower which if you're a cash flow investor, it's just not fun.

It's been a very long period of about two and a half years now that I've been mostly on the sidelines. I had the exact same experience from 2005 to 2008. It's a very long ruling for years and I'm in the middle of going through that right now so I'm very much looking forward to some type of market adjustment and still looking for stopping in the meantime.

[0:02:50.7] WS: Nice. Now, I hope we can get in to some of that either in the show or another show but today, you know, we really wanted to focus on just the due diligence that a passive investor needs to know to do.

You know, looking forward to getting into this topic with you but get us started, what needs to happen and helping to know what that passive investor needs to know when he's contemplating investing in one of these deals.

[0:03:11.2] JR: Sure. First thing that comes to mind immediately is and I'm really strongly believe this, who you're making a bet on is a more important than the property itself that you might be considering. Now, the property is ultra-important, I'm not going to make it sound like the property's not important, the location, the profile, et cetera. But we are making a bet on is

even more important. I've actually say the same team when you're about to see a startup for example.

Don't get like, in love with the deal and get in love with the team and the founders and then make sure you like the idea well enough because things can happen and sometimes things need to be fixed, changed, strategies can change, depending on market conditions and you want to have the right team managing everything. Now, when you're investing passively in real estate for example, you're giving up control, I'm just generalizing but in most cases, you're a small piece of a big deal, even if you have voting rights which you usually do, there will be a very small percentage.

It's almost not meaningful on your own and because of that, you are giving up control to somebody else and that is why it's absolutely key who you're making a bet on. Both in terms of experience, knowledge and asset class and perhaps even that specific geography. But also, very importantly is are they someone you can trust. That is very difficult to surmise, there's a lot of things you could do to try to paint the picture as best as possible.

Keep in mind too that when you're a passive investor, unfortunately, you can't get rid of all the risks so I like to call, there's like 20 different, what I call 1% risks, that anybody can face at any time in a passive investment that can't be eliminated completely. One way you can get around that aside from doing your due diligence and figuring out who you're making a bet on and then obviously looking into the property, is diversifying.

I'm a huge fan of diversification. I am hyper diversified what's one and so many different opportunities but diversification can save you even if you make a bet on the wrong person within reason. In other words, don't put all your eggs in one basket. It's funny, I literally just spoke to my 11 year old son, explained diversification like a week ago and I was telling him, you got an egg, you know, are you going to put them all in one basket, are you going to have 10 baskets for 10 eggs and if one basket tips over and the egg breaks, you've got the other nine left.

Very simple, everyone listening to this probably understands that. Not everybody always invests like that. I think it's really critical too. First thing that comes to mind for sure is who you're making

a bet on is the number one thing followed by the property. I don't know if you agree with that, if that makes sense to you.

[0:05:28.4] WS: It does completely, without a doubt. The operators, the first importance, then obviously, like you said, the property's extremely important but after the operator. Let's dive into that a little bit. You know, who you're making that bet on, that person or that operator, can you elaborate on what you like to see there or how you investigate that?

[0:05:47.0] JR: Sure. A few things that I do that can maybe be helpful here. First of all, I would do background check and all the managing members of the manager entity. That involves asking for personal information. I personally always ask for name, home address and date of birth, that's very sensitive information. If someone is hesitant to give it to me, I can kind of understand that but at the end of the day, if they're not willing to share with me and I can't run the background check on them, that's a red flag. Meaning, I can't move forward.

But background checks are critical, I just seen a lot of instances, when something has gone wrong, in most cases, I asked the person, "Did you run a background check?" And honestly, I cannot remember the last time that somebody got into a bad situation with the wrong person and told me, "Yes, I ran a background check."

Now, the background check will not save you all the time because somebody could kind of have the right mindset and then could become a Ponzi scheme in the future after you invest and nothing's going to come up but please run a background check before you invest in people and run them on everybody just to be sure. That's a very important step.

[0:06:45.0] WS: Do you have a website or some way that you do that background check that you know, resource that we could use?

[0:06:50.2] JR: Yeah. I use a service that basically, the police uses also. And you can get access too but you have to be a bonafide business, you have to have a real office location, they require you to have like a locked door with a key that goes into the door, in the room, there's very specific things that's kind of a caveat they come to check all these things in person before they approve you.

That service is called TLO. Like Tom, Larry, Officer. TLO.com. It's actually owned by trans union. There's another one owned by LexisNexis called accurrint.com. Those are what I would call like a two best known – there's recurring fees, I believe that it cost me a minimum of $50 a month, even if I don't use the service at all, just to give you an idea.

It's expensive but definitely with well and you get more information than you really ever need you know? In that type of check. You do not get a credit check but you get everything else. I recommend either of those based on what I've heard and my own experience. If you cannot get access to these, there are some online sites from what I've heard and what they're essentially doing is either running checks on similar databases.

You can even hire a private investigator who will actually run a check in one of these databases I mentioned and then you'll pay them to actually run it for you and then interpret it for you. Before I got access to these databases, I used private investigators. They're not cheap but they can be really helpful because they can interpret things and they have years of interpreting reports and the reports are not 100% obvious.

[0:08:10.1] WS: Let's backup a little bit before we get to that report. When are you asking for this information from the operator? Is it going to be pretty early on? Obviously, you know, I'm going to need to feel like we've got some relationship going her before I just hand you this information as an operator. I would assume.

[0:08:23.2] JR: What I do is I'll get the offering documents first, I will review them to make sure that it looks like it's a fit for me from a numerical perspective, right? Am I okay with the cap rate, the purchase price, the price per unit, the location, the business plan, the general strategy, the occupancy rates, is it even the right profile for me?

Because I have a very specific profile that I target, right? The cash flow minimums, hit or not in the projections, if everything checks off enough boxes, then I will then ask for the background check information. But I will dive into the deal first before I go there. I don't want to bother anybody for sensitive information unless it's really possibly going to be a fit for me.

[0:08:57.5] WS: Great, okay. Help us a little bit with that report. What are you looking for on the report, what's going to be a big red flag or maybe some things that you might see on there that's not a big deal?

[0:09:07.5] JR: Yeah, sure. It's interesting because this is a very subjective topic and I'll give you an example. If somebody has 10 speeding tickets over the last four years, are you okay with that or not? Most people, maybe. Some people maybe not. You're going to see that information. Now, if somebody has any judgments against them or any liens. If they have a whole number of people suing them at once, I'll give you an example.

Actually, once was saved from somebody who look to be fraudulent, basically had previously lived in a state, had 40 people or so sue him and then he moved to another state and then he saw the same pattern again. Now he was in his third state when I met him, right?

You can argue, look, if the person maybe actually wouldn't be found guilty in any of these cases but to me, it's not worth taking the risk as a personal opinion on someone who has so many people has pursued. Even if maybe they're all wrong because it's just not worth it, you can go on to the next, right? That would be something I look for sure, certain lawsuits.

Sometimes people have tax liens and once in a while, tax lien from four years ago, they didn't get it in the mail, they didn't pay the bill, they got the lien and then they paid it of within a year. That's okay to me. Relatively small amount. What if they have tax liens from like 2004 that have been renewed every seven years I think it is. I forget the exact number. They have more than one and these are large numbers and you know, what is that telling you?

You have two choices, you can either just move on to the next or you can ask some questions. I often do ask questions because you'd be surprised, sometimes it's actually really good reason for it. I remember once, there was a large tax lien and I said, "What's the deal with that." Well, "I got divorced, my wife isn't agreeing to pay their half, I'm not paying my half and I'm pursuing her to get the half but it's been sitting there for years," you know? That's some pretty good explanation, that sounds reasonable, right?

I remember once I had someone who got illegal firearm possession and what happened is that 15 years ago, somebody had a gun in your trunk and they actually forgot that they had it in their trunk, they were transporting it and they got stopped and the police officer found it, it was a licensed gun, it was theirs, it was completely legitimate but they weren't allowed to transport it the way they were transporting it in the trunk, is that okay? Probably.

You know, people are allowed to own guns if they're licensed. There's a lot of subjectivity to this. I personally have a philosophy in general that there's a lot of opportunities out there and so it doesn't take very many yellow or red flags for me to just move on to the next. Because if I could take a similar risk on someone else who doesn't have those yellow red flags with a similar return. That to me is a better situation from the start. That's how I handle that type of situation.

[0:11:35.3] WS: Okay. You're going to learn a lot of information about that person. Maybe even things they've forgotten about years ago.

[0:11:42.2] JR: You wouldn't believe. There are definitely times I found where somebody assumes – let's say a bankruptcy that was seven years ago. Suing his wife because it's nine years ago but it's not wiped on the report, it's only wiped from a credit report standpoint. They don't share with you.

One thing I do deal with which I would recommend is before I run a check, I say look, "I'm about to run a background check on you, is there anything I should know before I run the check?" I got the explanation about firearm thing because I asked the person in advance. Before I saw it. I like giving that opportunity, if they have that chance to pre-explain something instead of trying to hide it because I actually just two weeks ago, somebody emailed me and said, "I just found this on a check."

I asked them in advance about it, they didn't say anything. I was like, you know what? That is just too obvious and too big of a flag. I think they probably hoped it was a long time ago and they didn't mention it, it's like too much for them to forget to tell you. We agreed, that we were just going to move on because of that. That's another good strategy I definitely recommend.

[0:12:31.1] WS: That's some good investigative work there Jeremy. I used to do that as a police officer as well, I would ask the same question.

[0:12:36.8] JR: Interesting. You got to give us some tips then. What tips do you have?

[0:12:41.8] WS: That's interesting. But asking them ahead of time, giving them the opportunity to come forward with that, it's good too. Just seeing if they're going to be honest like you said, just giving you more information, what should I know. A lot of times, you know, as a police officer, you may not even actually going to be run the check but they don't know it.

There's all kinds of ways, you know, you're pulling bluff many times just to try to save your neck on the side of the road somewhere.

[0:13:02.4] JR: This brings up an important topic that I want to make sure we cover today which I'm sorry I'm switching topics a little bit on you but one of the things that I try to do when I'm doing my due diligence and I'm trying to asses character is a lot of the questions I ask, I care less about the answer than how it's answered, which I'm sure you'll appreciate having been a former police officer.

Give you a good example. If the vacancy rate in an apartment building is truly 2% today but it's showing a 10% vacancy rate in the proforma. Then I ask, why is there such a big spread? What I'm hoping to hear is, "Well, we're really conservative, even though we think it's going to be 3% ongoing realistically, we're putting in the padding because we want to make sure that we set the right expectations, hopefully under promised, over delivered for investor."

That's like the optimal answer to me. But I ask to hear the answer to make sure this is something else that just isn't what I'm expecting. On the flip side, if somebody has a building, that is 15% vacant today and they're assuming it's going to be 3% vacant for the next 10 years and make the numbers look really good and they're really aggressive assumptions, I don't want to hear. "Well, the sum market has had a 2% vacancy so we think 3% is very conservative going out for the next 10 years."

Who knows what's going to be happening in eight years in some market. That's just not that conservative. By the way, I kind of already have an inkling as to why that is but I'm asking just to confirm, just to hear their philosophy. A lot of the times what you're trying to do is read between the lines to understand their philosophy, you understand who you're making the bet on.

Another great example is, I see that you assume 4% rent increases for the next 10 years on average but 2% expense increases, right? For the next 10 years. They may respond, "Well with this market but it's been growing at 10% in the last two years so we're using 4% that's going to keep going on for the next 10 years." Someone else and they only assume there's going to be a 4% increase for two years and then leave it back at two or 3% for the next eight years. That to me is someone who is much more conservative.

Sometimes you see it and sometimes you don't so it's important to ask the questions. Again, sometimes it's just more about how they answer and understanding their philosophy as opposed to what the actual answer is, that's very important.

[0:15:01.5] WS: They're going to expose their plan, right? By how they answer the question and how they felt through their assumptions.

[0:15:06.4] JR: Yeah, I would say that one of the basic end goals I have is I'm trying to make them bet on somebody who is looking under promise and over delivere to investors and not be aggressive and just be a conservative person in all the expectations they set which will hopefully trickle down into everything I've read and all the projections and everything as a general philosophy. As opposed to someone who is being aggressive, trying to make the numbers look really good to attract investors because the returns look good.

Then we'll not really concern about building long term relationships with those investors but just get the deal closed and t hen they'll just move on to another investor next time if they have to. High level, if I can summarize it, that's what I'm trying to find as far as an operator philosophy.

[0:15:45.0] WS: Okay, you got the background check and now we're going into some of the questions that you're asking but you're more concerned really with how they're answering those

questions. Give us some more questions that maybe you ask? You know, this passive investor should know to ask?

[0:15:58.5] JR: Sure, yeah. Just to be clear. It's not 100% of my questions, they're not here towards how they're answering. I guess some of them might ask that and some of the cases I want to hear the answer but reading between the lines is more important than the answer sometimes. So questions, I literally just looked at an opportunity two, three months ago. It was an ATM not real estate. It was ATM's, I was investing in ATM's 11 and a half years and I remember I actually have 200 questions.

So there was a lot of questions you can ask and so I like using apartments a lot. I think a lot of listeners understand apartments, may have lived in apartments so they can relate. So you may want to understand all their inflation assumptions on the expense of the revenue side, the expense side and ask questions about that. I personally go line by line asking questions about every single item. So you may want to look at the entire expense ratio and in an apartments that is very important.

That would be dictated potentially on what's reasonable based on the type of building, how old it is, the type of utilities that have to be covered in the common area and even the climate, right? So if you're in Northern New England and you have to pay for the common areas to be heated, the expense ratio and the building may be more expensive than a building in Florida, I am just making that up. So you want to ask, "Why is the expense ratio this big or this high or not this high?"

"I normally see it in this rates, why are you below under those?" That is very important to understand because that feeds into the property assumptions and the productions for profitability for example. But I would go line by line on all the gram news, all the expense items, see what flags up, ask questions about those. I would ask questions about how they assume the exit price, the cap rate. They assume at the end the multiple they are going to get for the property, how do they come up with that.

You definitely want to dig in to the comps, the red comps and even the sale comps to justify what price they're paying right now as well as what rights they're assuming they're going to get

and even the [inaudible] rates in the area. So that is very important and these are all examples but I love asking about how somebody determined that the area was a good fit. So in other words are they thinking about population growth in the next 10 years?

Are they thinking about economic growth for the next 10 years and how they get all of that information in that sub-market? And so one thing I will often do is ask for that data and so when they send it to me you get a good idea of how thorough someone is. This is a great example of like the answer is important but if you read between the lines, if they are very thorough you are going to get a lot of data. If they're not very thorough you are going to get a piece of data.

And that tells you, potentially, what they're like and who you're dealing with and who you're making a bet on as a philosophy. And I actually sometimes will maybe not necessarily take their data for granted but then maybe even do my own research on the side just to validate that it looks right and this sounds very rudimentary but I often use Wikipedia because they actually source different sources. They link to different sources.

Where I might look up the census data off Wikipedia because it is very easy at a glance and compare it to whatever data they're using and see if it actually lines up or not just to make sure that they are using sources that seem like they're actually correct.

[0:18:42.3] WS: Any other sources that you use that would stand out to where we could go find this data also to double check?

[0:18:47.6] JR: Yes, City Data came to me right away and one of the ones automatically but it is interesting. You know as a philosophy, as an investor, I like to say that they want a trust but verified and so if you have a very experienced operator you want to trust that they have done the research but verify. And so the approach that I take is I will get them to send me their data and I will try to validate that what they did was thorough enough and it looks right.

And so sometimes they'll send me to City Data but then I won't go to City Data and clear, I will actually go to another source or I'll probably use this style with Wikipedia. I usually start off trying to verify it with the census information to look at that even starts to look somewhat correct. There is a lot of actually good sources you can use, City Data it is probably one of the most

popular ones I would say but again, I don't think investors should have to research everything from scratch.

Because it is really the operator's job to determine if that even makes sense to acquire and they are the ones who have done all of those research but you have to verify they have done the research.

[0:19:38.5] WS: Yeah, hopefully we have already done the research before we have chosen that market.

[0:19:42.5] JR: Yes but you know it varies. I mean it's just personalities, different levels of thoroughness. I have seen things over the years so it is something you really have to verify.

[0:19:52.2] WS: All right. So now we know a few more questions, we know a few more things that we should be asking about even if you don't know specific questions, you can look at the underwriting like you said and go line by line and probably get – you know this is going to bring up more questions for you just hearing the operator talk about a few things that you ask about, right?

[0:20:09.0] JR: Yeah, I really strongly recommend you go line by line. A lot of people don't go into that level of detail. But I see different ways people approach expenses. So for example, do you want someone who just assumed 3% inflation across every sale expense item, that is not necessarily unreasonable. But what is interesting to see sometimes like health care costs for employees. Let's say for self-storage there is actual employees and that might go up a different rate.

They may say, "Look, I am actually increasing health care 5% or 7% based on what's happened the last year each year. It's not just 3% per item because that is not going to be accurate by the time it is done." And by the way as an investor, if it lowballed, so to speak, then by the time your ten comes around your net operating income looks better than it probably is going to be. So that's not really gets to be conservative right?

If you are able to, I'd strongly recommend you go line by line and really start to question everything and make sure everything really looks right to you.

[0:20:56.8] WS: Okay, so now you have been through the underwriting, you have done the background check, you felt like this is pretty good deal as far as what you have seen there, that data. I mean you verified it, what's next Jeremy?

[0:21:06.1] JR: Next up would be, so you know it is up to you in terms of spending money but what comes to mind, several things come to mind. Background check, operating agreements and private placement memorandum but operating agreement that is very important that we get into that. Onsite visit, which I know a lot of people don't have necessarily the time to do necessarily but it is one of my key roles and certainly, if you have never invested with an operator before, I strongly recommended to meet with them in person at these ones before you invest with them as part of this gut check.

Because we talk about philosophy and everything on this podcast. But at the end of the day, you take everything together and it is a last check is the gut check, right? But it is really your mind putting everything together and one of the pieces that I think is very important to meeting someone in person and being able to continue to assess them, which as a former police officer you would probably would agree with that, you know, meeting someone in person versus the phone is different.

[0:21:53.9] WS: It is very different, body language tells you a lot.

[0:21:56.4] JR: And when you get the property tour, you can really start again to read between the lines and see how thorough someone was in actually understanding the competitive landscape within the area. Some people just go right to the property, give you that and then if you ask them for an area to work it will be a lackluster.

Some people will start to go off in an area too for an hour and tell you every piece of every corner because they really investigated that exact location very carefully. Telling you again just about the person's personality. I am sorry I am jumping around for us but these are all very important points. So operating agreement. For those of you who are not familiar of what an

operating agreement is, it typically is a use for an LLC, which is the most common entity that you would be investing in as a passive investor and it dictates the rules. So the rules that have to be followed by the operator for the company that you are investing in.

Which is then acquiring the property, absolutely critical and I cannot stress enough to read this. It is a legal document. I am not an attorney, I lot of people find it boring to read. They don't want to read through 30 or 40 or 50 pages of an operating agreement but it is critical because you need to know what the rules are before you agree that you should actually invest in them, right?

So is the operator required to send you a report every quarter or out of often they are saying they're going. And by the way, is there a deadline as to when they need to send it to you by, each quarter, are distributions even required to be made by the operator for the legal document if you are actually investing in the rules? Cash call provisions, are you forced to put cash in and if you don't are you getting diluted or what are the provisions and how do they work going through the steps.

Because those are all outlined in there and they should be and actually if they're not and if none of this stuff is outlined then that is another flag, right? Because that means that hasn't been pre-thought out and there are no rules. So it is critical you read and there is a lot more we can discuss but it is critical that you read that document and make sure that you're okay with the rules before you invest and unfortunately, I do believe that a lot of investors don't read them but I think they're absolutely critical.

[0:23:47.3] WS: I think what would be good — because since we don't have a whole lot of time left, I think let us talk about the operating agreement more because there is a couple of things I'd like to get into and then we'll do a second show to finish some of this like the on site visit and meeting in person and some of that.

But I would love to go back and let's dig into some of those specific things. Like you mentioned, distributions and getting diluted, things like that that maybe foreign words to some of us that are listening.

[0:24:09.6] JR: Yeah, so let me start with getting diluted. So cash call provision is actually the rules that dictate what happens if the operator needs to ask for more cash from the investors or just needs more cash to operate. So besides the reserves that hopefully they will look out if they run out the reserves and they need more cash to be able to operate the property, what happens? And so everyone has a different philosophy as an operator as to how to handle a cash call provision and that is okay. It is very subjective.

I personally have a certain way that I like for it to be handled optimally but that is just one person's opinion which I can share. I mean I remember there was one operating agreement I saw where the operator can ask for any amount they want at any time and if you didn't put it in within three business days, you got diluted by 50%. Okay? And so they could have asked theoretically for a million dollars for each investors because they wanted to and then no investor puts it in. And now they've diluted 50%, they own 50% more of the project.

And it is actually the rules, right? So I figure anybody who invested in that deal just didn't read the documents. Because I have never seen anything like that before but it was there and it was a real estate opportunity. It was a syndication.

[0:25:12.8] WS: Right, written by an attorney.

[0:25:15.1] JR: Written by an attorney or maybe edited by the operator before it got sent out, who knows? So you know the cash call provision is very important because you need to know that once you put your cash in upfront as an investor, that you are not necessarily legally obligated to put more money after you do and then what happens if you don't, right?

So if there's a legitimate cash call that's required then how they handle, do you get diluted because you don't put your per out of sharing? Is it a loan that is taken against the company first before they can dilute you? What steps do they have to go through? What interest rate will that loan be out? Et cetera, et cetera. It is important to understand these things in terms of what you are getting into before you get into it.

Distributions, those are obviously cash flow distributions or paid distributions made by the company. Is there even a requirement? Like the operator can say to you, “We’re planning on sending out quarterly distributions.”

And that is okay, that’s their plan but legally what are they supposed to send to you what they have to send to you. And very often it will say in the operating agreement that the operator has to make quarterly distributions for example that is the most common. Any available cash available for distributions now that is actually subjective. The operator gets to choose, is there available cash that they have to hold it back for reserves or some other need.

Which could be very legitimate. But you still want to look in there and make sure that they actually do have to make distributions, right? Because in some less detailed operating agreement it won’t even be in there at all then it’s not in the rules and then you never get distributions you can’t go pursue that person because it is actually not a requirement of a legal document, for example. So you just have to get all the rules understand them all and make sure you are actually in alignment with them. It is very important.

[0:26:42.1] WS: You mentioned earlier about the reserve budget, you know, if they use all the reserves now that they may have a callback provision, things like that or where they might call for more money but what kind of reserve budget do you like to see?

[0:26:52.2] JR: It depends on the property type. I invest across all different asset classes and it also depends on the business plan. So if you buy a stabilized property and it is a 100 unit apartment building, it is stabilized. It is relatively safe, say it is built in the last 10 years so it is in good shape, there isn’t that much for maintenance and there was nothing found during due diligence that required a lot of deferred maintenance, the reserves can be a lower amount.

If you are buying an older property, you are planning on rehabbing it all, well you want more of a cushion of reserves in case you may go over budget and then you’re still going to have that cushion for later on to operate it. So that reserve level should be higher. So it really is going to depend on the type of property and each property type has different reserve requirements.

[0:27:29.4] WS: All right, anything else Jeremy as far as what we have already covered? I mean there is numerous things that we can still go into but unfortunately, we're about out of time. But you know anything else or maybe even about the operating agreement that we should be thinking about or know to look at because obviously you get these documents.

You get so many pages and they're small type, small print and most people are just going to go through and sign it and just assume that it is correct. But anything else, obviously you know you have mentioned there is some great things but anything else we need to be thinking about?

[0:27:56.8] JR: Well just to end it off for now, I would say that I really cannot stress enough that you want to take enough time to understand who you're making a bet on, prioritize understanding on who you are making about ahead of the property and the numbers. I think a lot of people don't do that, they get enamored by the deal but you really want to understand how long someone has been operating, their philosophy, their track record, which by the way even a track record in my opinion isn't necessarily the greatest thing to look at.

If somebody started investing in 2011 at a perfect timing, has sold several properties since, the track record is going to look really good and if it doesn't, there was a serious problem because they haven't been able to by the end of cycle. But you want to really do your best to read between the lines and evaluate who you are making a bet on. Sorry I am being repetitive but it is just so critical to make sure you are making it down on the right person once you give them full control.

[0:28:41.6] WS: That is great information, we can't say it enough. So making sure we're hearing this. But just a few questions before we have to go. I have to pivot just for a minute and then we are going to do another show. So listeners I hope you'll come back tomorrow and we will finish talking about a few of these topics. But Jeremy, what's a way that you have recently improved your business that we could apply to ours?

[0:29:00.3] JR: So this is going to sound probably very rudimentary but I just switched email providers. So I always with a hosted exchange server company that I have been with for a long time before the cloud even started and I just switched to Microsoft Exchange 365 and their level

of service has been fantastic. So if you are out there and you're wondering if you should switch to Microsoft, I am not being paid to switch you Microsoft or anything, it's not paid ad.

But the level of tech responsiveness and in my opinion, so far it has been a couple of weeks, of knowledge of the reps is that I have been blown away how good it is. They treat you almost like at a business level and they know it's critical for businesses to keep functioning and stuff. So I have just been blown away how good Microsoft Exchange 365 has been so far.

[0:29:44.4] WS: Nice and what's the one thing that's contributed to your success?

[0:29:48.5] JR: That is a good question. I like to say and this has been not just for my investing career but, you know, persistence, just the willingness to grind it out. To go to whatever extent is needed. Sometimes to an extreme that most people don't even think makes sense. I think that that is just a huge, huge plus. Obviously you want to draw a line at the right place but you know I tend to just focus on persistence. I have tried to really teach that to my kids too.

[0:30:14.9] WS: Nice and how do you like to give back?

[0:30:16.5] JR: So I am really lucky because I live off the cash flow at this point and so it took a long time to get there. But now I love that I am able to help people who are relatively new or even not new just trade information and learn about passive investing, just help anyway I can. So I do calls with new people all the time just have basic questions. I don't charge anybody.

I won't do like five calls an hour with somebody because I am limited time. But I am always happy to help people anyway that I can from just educating themselves in passive investing and so I give a lot of time back every year on that. And hopefully it's helpful.

[0:30:51.9] WS: Nice, I am sure it is. You've helped us a lot. Jeremy you have been a great guest. I can't thank you enough for you time. Looking forward to us doing many other shows and diving into just your expertise here. But tell the listeners how they can get in touch with you and learn more about you?

[0:31:05.0] JR: Yeah, absolutely. Thanks for having me in again, I'm sorry we have run over on this one hopefully you'll be able to continue listening to the next one for this topic and the best way to reach me is definitely by email. So my email is jroll@rollinvestments.com.

[END OF INTERVIEW]

[0:31:24.2] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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