EPISODE 367

[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]

[00:00:24] WS: This is your daily Real Estate Syndication show. I'm your host, Whitney Sewell. Today our guest is Lee Kearney. Thanks for being on the show, Lee.

[00:00:32] LK: Thanks for having me.

[00:00:33] WS: I'm honored to have Lee on the show. But a little bit before I tell you about him, I want to remind you to go to Lifebridge Capital. Go to the contact us page where you can connect with me personally and I'll get on the phone with you and help you anyway I can. Go to the real estate show Facebook group where you can leave questions for me to ask guests and ask experts like Lee and get your questions answered on the show. So go there and get active in the group.

But back to Lee, he is one of the nation's most successful single family real estate investors. Since 2004, he has bought and sold – Are you ready? 7,000+ properties and is known as the expert in leveraging real estate market cycles. He now owns several real estate businesses in Florida all operating under the Southeast Property Investment Network, also known as SPIN, to fix and flip properties across the U.S.

Lee, thank you again for your time and being on the show. I mean, you're obviously an expert in this space. I mean, you've just mastered the systems and the business to be able to do this very well and very efficiently, and I look forward to getting into this, because that applies to – I doesn't matter if you're multifamily or single family. All of us are trying to build these systems where we can be the most efficient, and obviously buys many properties and do all these as fast as we can, but be as efficient as well. You've mastered that.

So tell the listeners a little more about who you are and let's jump in to how you've built this business.

[00:01:54] LK: Sure. Well, I started back in 2003. I was living in Ireland at the time. I've bought a condo, got broken into. It was a penthouse. Moved out. No one wants to live in a place after they get broken into. Thank goodness I was able to move back in with my parents at the time. Put the property in the market and sold it and made 35,000 Euro profit approximately.

What struck me about that is I made more money on that deal than the job I was working at the time, and that's when the light bulb went off for me. So I decided when I moved to California in 2004, I was finishing my masters at the time, I found a coach, someone who I've gone to church with. He was able to drive me around, look at properties. As I followed him around and watched what he did and asked lots of questions. Helped him cart materials from Home Depot, just whatever I could do to assist. What I realized was I just need to buy in this area, at this price point, with this amount of money and to sell at this price. I said, "Okay. I can do that."

So I have the information at hand. Was guns blazing. Went out to the market. Super hard market in San Bernardino. It took me 4 months to find my first deal. I guess for anybody out there, if you think that you're striking out in day one or day two, I did this for four months to find my first intentional flip. Finally took it down through an agent, a probate deal on the market. I was able to buy it with hard money. So I borrowed that. I had some cash of my own, which I used for the renovations. Hobbled the property together, somehow even doing exactly what I was told to be putting out the signs and waiting for all the buyers to come. 50 people came. Made 30,000, 35,000. The deal sits right outside my office, which is a reminder to me every day of where I started, and decided to repeat the process.

I did my second property. Made my first and second mistake on that second property. I had moved back to Florida. So I tried to remotely rehab it, and I had a friend do the rehab. Complete disaster on both front. Somehow stumbled through that rehab. Got out the backdoor, because California was actually starting to slide at the end of 2004. So I made I think by the end of the middle of 2005, when I finally sold it, made 10, 12 grand, but it wasn't a loss. So I was delighted to get out of that house. Decided to learn about foreclosures.

So I asked everybody I knew, "Do you know about foreclosures? I heard that that's where you get deals." Didn't really know what a foreclosure was, which is funny to me now that that was only 14 years ago. But I'm asking the questions that I'm telling you about. I guess my point for everybody out there, there is no dumb question when you don't know.

So found a friend's father who is buying at the courthouse steps, and I asked questions like, "What is the courthouse steps?" "What is a foreclosure?" "Why are numbers being auctioned?" There were case numbers. The case number represented a house. Found a person selling the book that turned the numbers into addresses, and the rest is really history there, because I bought my first and second and third and I used everything from bootstrapping credit card debt, to instant line of credit from Bank of America as soon as I got title. I was able to grow a multimillion dollar portfolio in about 18 minutes.

Then along came 2007. I got off my honeymoon with my wife at the time when I said, "We're done. We're broke." The market had turned. I was still buying and selling and rehabbing into a downward market, which you couldn't have told me this back then. I just didn't know what I didn't know. I didn't have a mentor. I guess if I had a mentor, I probably could have pulled out of the fire.

But the reality was I would have needed and pulled out of that fire a year and a half previous to when I actually crashed. So I had all these rentals. They were overleveraged. Not cash flowing. Rehabs, I was selling at a loss. Ended having to stop pay on all of my debt and renegotiate everything, short sales, write off uncollateralized debt. It was terrible.

So most of 2008, I was cleaning up my credit through 2009, but I had to make money. So what I realized is two important lessons, and I'm sharing these with everybody, because I lived these firsthand. So a lot of people now are in real estate as we're doing this show. They've been experiencing an upward market, extremely low rates and everyone thinks they're amazing.

They're buying deals, and I just closed in 100 doors, in 200 doors, and 500 doors, and I'm amazing. The reality is there is a lot of things operating in people's favorite today. That has not always been the case.

2008 I realized two things. One, there is always money in real estate. Two, you got to be on the right side of the trade. I immediately flipped from being a rehabber to being a wholesaler. That completely took the market risk off of me. Put it on my buyers, who actually were getting good deals at the time. I was making 5, 10 grand assignment fees. As I was digging my way out of the hole from 2006 and 2007, I made about a million bucks my first year wholesaling.

So the rest of history after that. The opportunity was wholesaling, wholesaling, a little bit of rehab. Transitioned into a lot of rehab. Sold a lot of turnkey properties to overseas buyers, and then several thousand deals later here I am today with a mature company. I've got systems and processes. I got people in some cases that have worked for me now for 10 years. So it's a well-oiled machine. We put a widget one end and comes out the other, and we make profit, and it's pretty straightforward.

So I like single family because I understand it. I bought and sold multifamily. But right now, I'd look across the board and the only thing that attracts me today is the cheap long-term debt. Everything else scares me to death, because I see prices, I see assets trading for two and three and four times what I sold them for back in 2008. That's why everyone has to look through this through their own lens. My lens is that I made and lost $2 million in two years 12 years ago, and I just don't want to do that again.

I would say I'm probably more risk adverse than the investor coming into the market in the last couple of years, but there is always money in real estate. Like I said, I made that statement a few minutes ago, and the good news is I think with multifamily that's cash flowing or single family that's cash flowing, and I've lots of students out there who can attest to this. They rode the market out even though their balance sheet was upside down, because they have positive cash flow.

What I would say to everybody out there, don't go into deals where you're stretching your debt coverage service ration. You're just barely able to make your payments, because the reality is if you have one house and one thing goes wrong, if you own a hundred doors, that's 100X the cap-X you got to spend on that property or repairs and maintenance. You need to have those reserves and make sure that you're able to pay bills and operate these buildings effectively.

I do think there's going to be a way because of the cheap debt. Again, it's just like people buying cars. Cars, 300 bucks a month. They don't have to look in what the sticker price is. My big fear for a lot of new investors, they're not looking at the sticker price. They're looking at the arbitrage in cash flow and they think it's – Let's take multifamily. You take a lot of people after their takeout debt, 80%. They may be cash flowing 100 bucks a door.

I've owned properties for over a decade. 100 bucks a door is extremely tight, and you times that 100 if you got 100 units. That's a very, very thin line that people are writing. Then on top of that, if you take the people that are buying at retail deals, which is where the problem starts, whether it's single family or multi family. If you're not buying at wholesale, you have no cushion.

Now, think about this. If you're getting your first stack at 80% and you're paying retail, you're bringing in equity partners at 20%. You're 100% leveraged on that deal. That to me just is very scary proposition. That's why I encourage everybody. It doesn't matter if it's single family or multifamily. Always buy at wholesale. Really, I would say 70% is your max, 60%, 65% is great, because that means you can cash out at 80%. You can have a reserve of cash, which you should not spend, by the way. You should keep that for rainy day. Also, it will boost your balance sheet. That way then, if you do come across big repairs or you've got big vacancies or big problem in any of your units, you have reserves there to cover it. But I just see a lot of the same mistakes coming back. They're just coming back at a different form this time.

I'm interested to see where all this is going to be a year from now, two years from now, and three years from now. I would say that every market is different. But Florida, for sure, we're already sliding the other direction. Single family in South Florida, I've seen a slowdown. I've seen the comps at a high point in 17 and coming through 18. They've been starting to decline in 19 that are doing the same fall in the same trend.

Every market is different, but these cyclical markets like Florida and California, Arizona, Nevada, you've got problems. There are definitely problems on the horizon, and it's time to be cautious and look at the market risk and not just the pure numbers.

[00:10:48] WS: Are most of those 7,000 a unit are properties in Florida?

[00:10:52] LK: Majority of them were. Yes. Probably about 6,000, but the last couple of years we've diversified and gone nationwide. Yes, the majority of those properties have been in Florida.

[00:11:04] WS: I just thought that many units, that many turnovers in that amount of time, you must have just a massive amount of data that's valuable as well being able to understand and see some of the things that's happened over the last decade.

[00:11:16] LK: Real-time. In real-time, we see it. We pulled out – A lot of markets in Texas were competing against new build that are selling less than building cost, because builders are just trying to dump their assets. It's crazy. So we'd buy and use the asset. Even if it was two or three years old, we couldn't compete with brand-new construction.

So I see this stuff in real-time, and this is where my data is good, because it's real data and real time and not the news, which typically is trailing six months through a year behind. When you see on the news that there's a housing crisis, that housing crisis probably happened a year previous.

[00:11:51] WS: Yeah, and I appreciate how you say like there's always money to be made in real estate. One of the things you've very educated about is just understanding the real estate market cycles and how to find opportunities in every cycle. But I'd love for you to elaborate a little bit on just understanding that market cycle and how you are doing that and so you're prepared. You mentioned that you already see it happening in Florida. What are you doing to prepare for that?

[00:12:14] LK: Well, what I would say is whether you're buying single family or multifamily, make sure that you got good cash flow. Make sure that you're trying to kill these deals. What I mean by that is you're going overboard in your renovation cost. You're going overboard in your vacancies. You're under-calculating your rent.

Where people run into issues, I see a lot of people forcing appreciation, whether single family or multifamily. The rents are 500 and they're projecting 750. Now, 750 doesn't come, they're pretty much square out of business. So that's where I think there're a lot of issues.

I mean, let's just take a single family renovation. The best way for us to underwrite today is where you got a low comp and a high comp, we take the lowest comp and the highest renovation bid. That right there is a natural cushion that I build in to make sure that even if the market is starting to turn, the good news is it's not like the stock market where it crashes one day and you got Black Friday in the real estate market. It typically moves over quarters and gives you plenty of signs that, "Yeah, there's something changing here."

Multifamily is interesting to me, because the rates are just so darn cheap that you're able to cash flow on these low cap rate buildings, but experience has taught me that units are not always going to be occupied. When people start losing their jobs and they can't pay their bills, rent is one of those bills that they can't pay. Evictions go up and cars get repossessed, and it's not just real estate that crashes. That's all anything that people have to spend money on that's a bill, they stop paying them.

So that's a natural part of the dead cycle. Couple that with real estate being pretty much inflated across most asset classes. There really is no free lunch. So when you ever hear someone say, "Oh! I'm going to storage. It's like this undiscovered territory."

The magic hand, the capitalism, find any opportunity at any market and typically closes that gap. So assets are priced accordingly, whether it's an A, or B, or C, or a D. It's priced according to the risk associated with it. You got the substitution principle kicking in. So with all of that being said, I don't believe that there are some undiscovered free lunch in real estate that's some magical guru is going to show you that no one else has discovered.

[00:14:27] WS: I couldn't agree more. I like how you mentioned too, you're diversifying, right? I mean, you're looking into other markets. You're moving into other markets. Can you give us an example of a market that you chose and why? Help us understand how strategic are you in like picking other markets that you're going to do.

[00:14:45] LK: We're trying to just day trade. Honestly, our philosophy is going to be different probably in the answer you're looking for. We're not chasing markets. We're chasing mispriced assets. So what I'm looking for is assets that were mispriced by a seller through an auction platform or any platform where if I big on enough assets using my formula, where they fit my buy box as far as the type of asset I want to buy, I look for the ones that are mispriced. There's a real beauty when you don't have an area and you're just buying stuff that's a deal. You can pick up a lot of stuff that your competitors are not chasing.

[00:15:19] WS: That's interesting. No, that's very interesting. Now we could apply that. I'd love to hear more too about how – Just scaling this business, quickly you scaled – Obviously, I know the 2008 watch out, but you've been able to build systems and come back in a very big way. I'd love to know just some of the crucial systems that you had to put in place to really scale this to the level that you have.

[00:15:42] LK: Sure. At some point, you reach an economy of scale where you can have a specialist within your organization. So, now, as a scaled organization, I've got a pre-acquisitions team, acquisitions. I've got a transaction coordinator in the buy side. I've got a sales team. I've got a [inaudible 00:15:57] team. I've got a construction team. I've got of field of services team. I've got a transactions subordinator when I sell it, and I got an accounting team.

What's nice is when you reach the certain economy of scale, single family or multifamily, you can have specialists. I've always viewed single family especially, or really real estate as a production line. You're just trying to get it through in one end and out the other. Even if you're going to rent it, the end of the line is getting the property rented with a stabilized tenant. Now that asset is done and it's stable.

It really applies whether you're buying or selling or you're renting. I look at where I want to end up with this asset and I look at all the steps in the events that need to happen to get it there. I try to put experts in place in my business handle each part of that process.

[00:16:43] WS: Oh, I like that. It goes back to the system, right? I mean, you've created this, or the model, and you know, "Okay. This is the asset that we have. This is where it fits in the model." Who's the specialist that you have over that that's going to take it from that one to the next specialist?

[00:16:56] LK: Yeah, they do hundreds of these. At this point, I've got people in my company who've done thousands of the same thing. They're really good at it. So we just create SOPs. I try to dumb them down to a third-grade language. So if that person leaves and the next person comes along, it's straightforward enough. I just try to take the people out of it and make the system dummy-proof, and that's really what I would say, that a lot of business owners out there, if you're listening to this, these complicated softwares and complicated systems that only you understand if you feel very smart because you hold the keys to the kingdom in your business. Your goal should be to work yourself out of the business. That should be your goal.

If you take that few, you make everything really stupid. Anybody can do it. If person A leaves, you just put in person B. You cross-train your team and you want to make it easy and you want to make yourself where you're needed in your business. You basically want to kick yourself out of the door. That's really the goal of how you have a business instead of being a glorified employee.

[00:17:55] WS: Is there any tech that you've used to help you develop your SOPs [inaudible 00:17:59] easier to share for people go to through and understand?

[00:18:03] LK: Sure. We built our particular inventory management system on a DelTech platform vision. That's what I did. All I did was look at what's the primary driver. In single family, it was the sale status. The same thing with my rentals. Basically I move to each asset through a different sale status, and that's what moved it through the system. Now, when it comes down to single family rentals, I've just used the off-the-shelf, AppFolio, is what we've used. I think it's a fantastic software.

I remember trying out Yardi. For people who hate their life, you should use Yardi. It's the absolute – Yardi, if you're listening to this. You have the worst property management software and customer care in the entire world. But AppFolio, we settle on. It has these problems like everything else, but we found it's a good, great software.

What I really liked about AppFolio is that it managed your inventory management, your marketing, your rent collection and you accounting. So it's all in one place, and that to me was exciting, because we eliminated double accounting, double entry back into QuickBooks and all the things you don't want to do. I found that to be just a great all around software. But everyone's got their preference if you ask 10 different people.

I listen to high-level operators. So when I had a terrible experience with Yardi, I asked all my friends, and the name AppFolio just kept coming up, and that's one that we finally settled on. But it comes down to just viewing the events in your business and understanding the lifecycle. You take a rental. I mean, it's very, very simple. If it's not rehab yet, it's in that rehab phase. If it's then rehabbed, it's in the marketing phase, whether it's for selling it or renting it. Then if you've got a tenant place but not yet moved in. It's sitting in that status. As soon as the tenant moves in and it's paid, it's stabilized. So it's just the circle of life. Whether it's a rental, or a property that you're flipping, a property you're flipping, you haven't bought it yet, you closed on it. If you [inaudible 00:19:54] to sell it, if you're going to wholesale it, or you put it into construction, it comes out of construction back into marketing. Goes to marketing to a pending status. Gets sold, it's out the door.

People overcomplicate real estate, but you've just got to look at what that lifecycle of a property or whatever you're doing in real estate is, and it's the same way with loan. If you're lending money, the capital is sitting there unused. The capital is placed for a project. The capital is put out. The capital comes back. You recycle again. It's a lifecycle of capital. So that principle really applies to every aspect of real estate.

[00:20:28] WS: Can you give me just a couple tips on how you – Or like any motivator, encourage employees to work and to be driven in this business?

[00:20:36] LK: Sure. You have to be what you want them to be. So if you don't want them to be lazy, don't be lazy. It's very, very hard. If you're not passionate about your business but you're expecting your team to be, I think that there's a real disconnect there.

If you don't love what you do, they're probably going to come to work their chin drag off the floor too, because everybody hates their life. I try to lead by example. Come in with a positive aspect. Check my attitude at the door. Be the kind of leader that I want my team to be. I have a huge effect, that any business owners out there, if you're listening to this. The way you come in to your office and portray yourself is exactly what employees you're going to mirror. The team is going to mirror exactly the way you act.

What you'll find, even if you got one person who's not feeling quite up to par, they're going to be motivated by you and say, "You know what? I'm not feeling the greatest, but now I've come to work. I feel a whole lot better." What happens is I want a happy team. A happy team is productive. Non-happy team makes mistakes, is sloppy, is just not doing a good job, a quality job. I want a team that likes coming to work. I've told anyone that works there. If it gets to a point you just don't like working here, I'm okay with you leaving, because I'd rather have people that want to work here instead of people that don't.

[00:21:49] WS: Awesome. Just few last questions before we run out of time. Lee, what's a recent improvement that you've made in your business that we could all apply to ours?

[00:21:58] LK: Sure, absolutely. I've got a great one for everybody out there. In our real estate education business, and I'm considering making the switch in my real estate investment business too, is switching over to Monday.com. So Monday.com is like a Google Sheet, which I've used for years on steroids with a lot of cool buttons, a lot of integration between being able to just drag your email right into your task, and your task is your email. So you're emailing out and your task getting updated all at once. The color coding is easy. Again, it's third-grade stuff. It's easy to understand. You can bring different people into different projects. It's just in a format that to me is visually appealing and it's easy for your team to understand.

[00:22:38] WS: Yeah. I haven't heard anybody talk about Monday.com. I see their advertisements everywhere. But what we're you using before? Was it Google Sheets or – Okay.

[00:22:46] LK: Yeah. It's basically like Google Sheets on steroids. That's the best way I could describe it, because anyone who's using Google Sheet will latch on to what I'm talking about here. But I like the collaborative features. I like that you can bring certain teams and certain projects and keep everybody. Everybody basically has their own menu.

So if you're involved in project A, but not project B, you'll only see project A. So it's just nice. I'm always looking for that tool that's easy to use as well as being effective, and I found that to be a good hybrid between a hard to use software. For me, I look at something like Podio, and I think it's really clunky. I just can't stand Podio. But that's just my personal preference. I always liked Google Sheets, because the idea to create the workflow left to right, or top to bottom. Super easy. If I had a certain club I can start here. Just work your way down. As soon as you're done with the list, you're done. I like the fact that something being simple like that.

Yeah, Monday.com has been a good tool for me. I found that being effective in running that business. I'm able to work with my assistant and have a lot of the task be plug and play without me having to actually push the buttons.

[00:23:54] WS: Nice. What's the number one things that's contributed to your success? I would go back too, I mean, you experienced a massive downturn and hard times, right? Now you've come back. What's one thing that's contributed to that success and come back?

[00:24:08] LK: Sure. It's a market-drive approach. Instead of locking in a strategy and beating that strategy to death, whether it's in line with the marker or not, I look at the market. I see what the opportunity is, and then I tailor a strategy around where the opportunity is instead of just trying to fit my strategy into a market. You're never going to beat the real estate market. It's a multitrillion dollar market. It's going to crush you. It's like an ocean. You're going to stand and hold back the tides. It's the same thing with real estate. So you have to be humble enough to be able to pivot your business and go where the opportunity is.

[00:24:38] WS: Great advice. How do you like to give back?

[00:24:42] LK: How do I like to give back? We support Redefining Refuge, which is a charity I've supported for many years. They actually house trafficked women and they re-habilitate them, they educate them, they get them back into society with a job, able to stand with their own two feet. They get them away from their owners, for lack of a better word. So that's a cause I'm really, really passionate about. As a Christian, I do a lot of good deeds where I don't tell anybody. I'm not a big fan of bragging on social media about doing that. I think it's good to just do that stuff and not tell anybody, but that's on a personal level for me. As a business, the one that we support is Redefining Refuge. I personally know the founder of that particular nonprofit, and it's a fantastic organization.

[00:25:27] WS: Awesome! I appreciate you sharing that, Lee. I'm grateful for that. That's a great cause. No doubt about. But great show. I appreciate you just elaborating on your experience and going through the downturn as well, and how you came back, and systems that you've used, and employees, and there's all kinds of great tips that you've provided, Lee. But most important right now, tell the listeners how they can learn more about you and get in touch with you.

[00:25:48] LK: Sure. It's very simple. My brand is realmobile.com, www.realmobile.com. You can there. You can find out about me. How I educate people in the marketplace, and I'd be happy to discuss that with anybody. But that's where you can go if you want to learn from me and about me. That's where you go.

[00:26:06] WS: Awesome, Lee. Thank you so much. I appreciate your time very much.

[00:26:09] LK: Of course.

[END OF INTERVIEW]

[00:26:11] RP: 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 in 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. Subscribe too so you can get the latest episodes. Lastly, I want to keep you updated. So head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page so you can talk to me directly.

Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

[00:26:51] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Lifebridge Capital. Lifebridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Lifebridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success

[END]

