

**EPISODE 402**

[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 Jonathan Wei, thanks for being on the show Jonathan.

**[0:00:32.0] JW:** You're welcome Whitney, glad to be on the show.

**[0:00:34.8] WS:** Yeah, I'm happy to have you on the show and I know you're going to provide a lot of value to the listeners and from your experience and I'm looking forward to getting into our conversation. But real quick, I want to remind the listeners to go to [lifebridgecapital.com](http://lifebridgecapital.com) where you can connect with me personally and I hope you'll also go to the Real Estate Syndication Show Facebook group where you can connect with experts like Jonathan, you can ask questions and you can submit questions for me to ask on the show and connect with other people in your network and keep growing your business.

A little about Jonathan. He is a CPA involved in multifamily syndication and he loves to travel. Jonathan, give us a little more about who you are or what you're up to and then let's dive in to how you got your first deal or your first syndication.

**[0:01:17.1] JW:** Yeah, sure. My background as professionally, I work for a big four, Price Waterhouse Cooper. I went to Rutgers University. I'm a CPA and I'm a New York CPA. And I have a Master's degree in Taxation and I was working in Price Waterhouse. And I work in

numerous Wall Street firms during my career. And during that time, I read, I think everyone read *Rich Dad Poor Dad* by Robert Kiyosaki. It changed my life and decide to pursue real estate part time, I bought a condos in New Jersey and I bought a three room and decided to go to Philadelphia to fix and flip some homes. And I really love real estate so I decided to look into getting to a larger scale. I got Michael Blank's book and I got his SDA analyzer.

And I decided to join his mentorship program to get some guidance and mentor to go big and faster. That's how I got into multi-family space.

**[0:02:10.4] WS:** Okay, you know, let's break that down a little bit. But you read *Rich Dad Poor Dad* and realized, "Okay, wait a minute. This real estate thing could really provide some wealth, right?" And pursued real estate but you started with some condos, is that right?

**[0:02:23.7] JW:** Yeah, some condos in New Jersey. I used to live in Princeton, New Jersey. I bought a few condos in the area where I lives because I felt I can go to myself and be the handy man, watching YouTube videos and fix them some items and I can be a handy man. And so, I decided to go to Philadelphia which was actually a time because it was a very cheap property, the 50,000 for like a row home and property taxes only \$20 a year so it's either go fix and flip some homes in Philadelphia as well with my friends.

**[0:02:50.5] WS:** Okay, why not keep doing that, why specifically get into multifamily syndication?

**[0:02:56.0] JW:** Because, I thought that when I was working as a CPA doing taxes, it's very stressful environment, in the Wall Street environment. Even though I kind of through I climbed through the ranks and became like the head of tax. I decided that I wanted financial freedom and I read Michael Blank's book. I saw his SDA and I realized I need a mentor to go big and learn multifamily space. I couldn't do it on my own. I joined this program, I decided to get a mentor and scale and right now, I have 136 units as of right now.

**[0:03:25.2] WS:** Wow. Okay. You hired a mentor, how long from the time you hired a mentor to the time you found your first deal?

**[0:03:32.8] JW:** Yeah, it was in September of 2018, I joined. And I got on the contract and that thing was May of this year, of '19 and that was my second, actual deal as a GP. Now, for this deal was breathing capital as a general partner for another deal in Atlanta, Georgia. This is my second deal but my first deal leading the syndication from A to Z.

**[0:03:56.0] WS:** Nice, that's quick. I mean, I found that most people aren't able to do a deal that fast even after having a mentor and I congratulations on that. Tell me about – how did you narrow down to the mentor that you chose?

**[0:04:09.8] JW:** My mentor is Drew Whitson, a great guy. I love him and I think he is –

**[0:04:13.6] WS:** I mean, just like you chose Michael Blank, great guy, great program. But there's so many and I get that question often about well, "How do I know which program to join?" And I just wondered, you know, what the factor was that said, "Okay, you're going to go with this program?"

**[0:04:27.5] JW:** Because I read his book and I saw the SDA and I saw his videos and he looked like you know, looked like a good mentor and he's credible. So, I decided to join his team to get more experience. Now, at the time, I only knew him and another person and I compare him against another person and that's when I decided I want Michael Blank.

**[0:04:43.8] WS:** Okay, no, great guy. I just wondered because I get that question all the time. But yeah, great guy and program. But walk me through how you found this deal?

**[0:04:53.7] JW:** I found this deal because when you're part of the program, they say, "You have to always contact brokers, dealers have to do your networking and meet people and you know, coffee." Through my networking, I found this great broker, Chris. And he was looking for me and he said, "I got a great deal for you. I got two deals for you." Out of the two deals, I analyzed the of market deals the one that I like was more stabilized. It had like around 90% occupancy.

The other one's 40%, so I decided to take the 90% occupancy one and I underwrote it. And it seemed like a good deal and I submitted an offer, an LOI. Which – by the time you underwrite

like a hundred, two hundred deals, you're comfortable of the number you have a sense of what's good or not and you submit an LOI which is a natural progression.

**[0:05:32.7] WS:** Okay, tell me, if you hadn't had a mentor, you think you still would have found that deal at that time and been able to close it?

**[0:05:39.9] JW:** No. Because honestly, the mentorship program elevated me and I needed also a KP, a guarantor and my mentor was a guarantor. And I needed someone to help me make sure that underwriting is correct, guide me through the steps and teach me off the first deal. So that was very important to me to get my first deal done with a mentor. I didn't want to do it alone.

**[0:06:02.1] WS:** No, that's great. I couldn't agree more, same way. I hired a mentor and it's surely pushed me much faster, it gives you more confidence, right? Because you have somebody kind of looking over your shoulder, you know, that's been there and done that. Tell me a little more about the deal, how many units and where it was located?

**[0:06:16.7] JW:** Sure, this was in [inaudible 0:06:17] city, the metro area. And it's 56 units with a commercial office space. So that space was like a thousand square feet which we can rent it out to someone to use, so it was an extra bonus. And the investor was a hotel owner so he didn't know how to manage it properly. So, he was up 22 and come in. Valuate the property and increased the rents, maintain the expenses. Put in a professional property manager and turn it around and the exile and the deal. We're talking five years on the deal.

**[0:06:47.8] WS:** What was it, Jonathan that you saw in the old management that was poor enough that allow you to see value that could be had?

**[0:06:55.9] JW:** I noticed that he had inadequate experience and did not know how to properly run the property. She was basically an amateur, given the lower rent scale and giving very low pay roll, saying, "I want you to manage the property." However, I noticed that you know, there was a lot of deficiencies in certain areas. Rents are very low and she couldn't get the occupancy the way that ideally should be ran. So, there's an opportunity for me to increase the value, you know, with some paint, refresh it. Put some amenities, outside, you know outdoor BBQ to increase the awareness, the brand of the community.

**[0:07:30.3] WS:** Okay. I meant to ask you also, about you know, you said finding this deal was off-market, the broker gave you a couple deals and you analyze them and this one had 90% occupancy and you liked this deal better. but how did you build that relationship enough with that broker that since you had no experience in syndication, why did he give this deal to you?

**[0:07:50.0] JW:** I think it's because he sees that I'm genuine. I'm hard working. He sees that I'm a tax professional, that I am more senior level like you know, director above. He sees I'm more serious committed so he trusts me, he believes in me. And he knows that I'm going to scale to a very high level. He wants to work with me and his team.

**[0:08:10.0] WS:** Nice. Okay, I meant to ask you too, you had done some condos and then maybe a few flips. But then, going into the syndication model, I hear it all the time, you know, people are fearful, right? They're fearful to go up to doing a large apartment building. What was key to you to being able to do the next deal as a large apartment complex and go through the syndication model, you know, after not doing any kind of commercial property before?

**[0:08:36.7] JW:** Yeah. I think a lot of was my mentor and a lot of it also was the fact that I have family and friends who supported me. So, I told my relatives, "I'm going to multifamily syndicate this deal. Do you want to support me in my endeavor to do this?" He's like, "Yes, we will." And put a lot of capital into the deal. So, a lot of my closest family and friends supported me and gave me the faith. And then you know, me being kind of like a born leader, I've always been directing and teaching and leading in my role as a tax director and head of tax in the Americas, I took that on as a challenge and I want to syndicate deal, when they get a smooth transition, we're going to have a laser focused plan on how to value add.

That's what I did, I took it on and that's how I became successful. And this is actually my second deal. My first two I raised capital and raised capital to help fill the deal on Atlanta deal. So, I helped save that deal as well.

**[0:09:27.6] WS:** Nice. Tell me about raising capital for the first deal, you know? How did that go for you and what did that look like?

**[0:09:33.4] JW:** That deal was very interesting. That deal was a 34-unit asset. It was in the Douglasville, Atlanta which is outside of Atlanta. And it was a student of Michael Blank who needed some assistance to raise capital. My mentor coach say, "Oh, I need you to help her raise capital." I said, "Okay, no problem." I am going to take a challenge because I was looking for deal as well. And I raised my hand and then went out, I went to all my contacts. I went through all my phone book and I called each one, "I have a deal in Atlanta, it's a great growing area, would you be interested in the best thing and it's the offering? Which is a 33-unit town home and we are going to value-add the deal. It is a beautiful area." I show them the deck and a lot of them really expressed interest in to it. And I was able to raise a specific portion of money for her to close the deal and I am very happy I can help her in that way.

**[0:10:18.9] WS:** Nice, so what kind of response did you get? Did these people know that you are already in real estate? Did they know that they were going to have this opportunity or was this the first conversation?

**[0:10:28.2] JW:** It was actually the first conversation for raising money for a multifamily syndication. They know that I did real estate. The I know that own three condos. They know that I own any fix and flip. But they didn't know I put a lot to commercial buildings. So sometimes we are very fearful because you know, people ask them," Do you have \$50,000 to commit to the deal?" They are very fearful, right? So, a lot of them will ask you questions and want to vet the deal.

They want to see your track record and so that is where Michael Blank and his team came in. I say, "We have Michael Blank. We have a team. We have experienced syndicators who have track record and my role is to help raise money and raise capital. That is my role." And so, my friends did come invest in the deal and willing to close on time so.

**[0:11:13.2] WS:** Okay so you know when you are talking to those investors and I know obviously they have lots of questions but specifically like the tax benefits obviously you are a CPA, could you elaborate on how you expressed the tax benefits that they were getting through investing in this deal?

**[0:11:27.5] JW:** Yes, so in a multifamily space in a syndication, you get excellent tax benefits because versus a single-family house while you do get some tax benefits through depreciation, it is more on a smaller scale. Whereas when you do a larger multifamily syndication, you can use core segregation, under the Tax Cuts Jobs Act. The Trump reform rule to be able to accelerate one to 200%, 150 and a 100% annual. So, to be able to accelerate that into a cost segregation to put up with the appropriate lines.

So, we can work with your CPA to determine what is the best scenario for you in that situation. and what does it that it creates paper loss for you a K-1 through a K-1 distribution. So, it is a wonderful tool.

**[0:12:07.1] WS:** So, can you elaborate on what paper loss means? We talk about that term all the time but for somebody that is not maybe invested yet or maybe they have never made a big investment and did something like this, they may not know what you are talking about, what does that mean if you say paper loss?

**[0:12:22.7] JW:** Sure, so paper loss means that phantom loss basically what it means is that you take a non-cash advance. Like for example, let's say you buy a computer. Under the makers of 168 depreciation, it is five years. There's a table the IRS publishes, five years you do either make this modified cost acceleration. So, you accelerate the appreciation the first year and the second year it is accelerated. Over time it gets lower. So, in the front of the graph looks accelerated and overtime it gets lower and lower. So, it's got modified accelerated cost recovery system makers and then you do all the five years. There is a period, they tell in the IRS table.

So, what you do is when you make the election to accelerate bonus depreciation, push it to forward in the earlier years, it could be year one. So fully expense a 100%. Or it could push from 27 and a half years putting them into real estate into a five-year bucket or a seven-year bucket based on the cost segregation analysis done by the firm. So, what it does is that you accelerate the deduction so that when you definitely exceed your income you get a loss due to mainly because of the depreciation rules.

And when you get a loss, you don't pay no tax on the losses but you get it. So, depending on your situation, you can get a benefit for the loses in the current year.

**[0:13:37.0] WS:** Nice. So, Jonathan what has been the hardest part of this syndication journey for you?

**[0:13:42.2] JW:** The most difficult part I think is raising capital because it takes time. It takes trust and it takes a series of steps that I learned to get pre- [inaudible 0:13:53] off of that \$5 million. And some of the steps is basically branding your brand, social media, creating a nice branding, they want to know you, creating your own meet ups, which I have done and locally in Dallas. I do monthly webinars with experts talk about topics like cost segregation or you know, opportunity zones and I do that wonderfully.

And get your brand awareness out there that you are a multifamily syndicator. You are a part of a team, you have a track record. And if you people take you seriously and know who you are, then you get recognition and then maybe you view it as an industry expert in your field and that is how you build your followers. Because once you add value to them like how you add value in your podcast, you are giving value add to your listeners in your podcast then you become a credible industry thought leader platform. So, that's what you do.

So that is how you build your brand through your establishment and that is how you get passive investors ultimately.

**[0:14:44.4] WS:** Sure. So how are you preparing for this potential downturn that everybody is talking about?

**[0:14:50.6] JW:** You know so it is recession but nobody could predict when it is going to happen and for me, I just do my best to underwrite conservatively. I can't predict the future but I know multifamily is very safe. The default is very safe less than 1% in 2008 the great recession. So I am not as concerned as other people. I just underwrite conservatively; find the deals and I know that I will produce good value and make excellent returns for my investors.

**[0:15:16.2] WS:** And what is a way that you have recently improved your syndication business that we could all apply to ours?

**[0:15:21.3] JW:** So, some of the things that I have improved is – one of the tips I would say is you always got to underwrite conservatively and raise a little more, especially in capital raising. Because you never know if the person is going to wire the money at the last time. And also communicate frequently and ask the right questions. Meaning that you don't want to take an investor who has only \$3,000 in their bank account right? You want to make sure they have enough capital to withstand enough storms, right?

You got to make sure that they understand that the risk, they have to understand that they have enough capital and they are aware of this issue. So, communicate frequently, underwrite conservatively, raise more money so that in case the person backs out you have the additional capital and try to do it before you have the deal. So, pre-commitments ahead of time so you don't scramble the last minute and always have a team that you are always training a team.

So, what I am doing is I am training my friends to raise capital and I train them in a certain manner to raise capital. Then after I train you how to asset manage. So, you are training your team, you are building a team. So effectively when you are leading a team you focus on a higher value of deals like broker relationship for people you met, creating a branding. So, you do more high-level value and you have a team to help you do the rest of the work. So, building you or your system, building a team that is what is very important to me.

**[0:16:38.7] WS:** Very important part of the entire process. The syndication is a team sport for sure. So, what is your best advice for caring for investors so they want to return to the next deal?

**[0:16:49.2] JW:** My best advice is you know, be honest, be truthful, be transparent, you know always communicate. Like I speak monthly to them and I like your idea as well like fly in California, I can fly to California to give him the checks in person. So, it feels more personal and I get to know him a little bit more, understand what else they are looking for and making sure that they are happy with the investment and happy with the team. That is most important.

**[0:17:12.3] WS:** Yeah, I appreciate that and you can't do that for every investor. You can't fly all over the place but we did. We had a group that were really close together and so we were able

to hand out a lot of the first distributions in person and answer questions, which was great. So, what would you say Jonathan is the number one thing that has contributed to your success?

**[0:17:30.5] JW:** I think it is hard work. It is dedication and it is your mindset. You believe you can do it, you believe the sky is the limit and you have to work hard every day at it and do what you are supposed to be doing. Like try to build your brand, try to create network and meet ups and meet more people and also find the right partner. So, it's very important to find the right partner. So, once you have a deal and let's say you need a \$10 million raise, you need to find the right person to help you raise the capital as well.

Because if you know that your friend can raise that capital, you got to find the appropriate people with more experience that can help you with capital and go and build together. So, you go further as you go bigger as you meet the right people in the team. So, you can go fast and bigger.

**[0:18:07.5] WS:** And how do you like to give back?

**[0:18:09.7] JW:** I like donate money. I also like to help out in a soup kitchen. I like to give a meal to families for thanksgiving. You know those are things that I give back to community and I also help with coach and teach folks who are interested. You know they asked me about tax questions, I always try to help them with tax questions about investing in real estate. So that is what I do.

**[0:18:29.6] WS:** There tends to be lots of questions around taxes, right? So, it is nice to know somebody like yourself that is an expert in that field but at the moment tell the listeners how they can get in touch with you in case they have a tax question or about real estate?

**[0:18:41.9] JW:** Oh sure, they can reach me send me an email at [info@greystonecapgroup.com](mailto:info@greystonecapgroup.com) or on my website. So, you could reach me that way, greystonecapgroup.com.

**[0:18:57.6] WS:** Great Jonathan. That's a wrap, thank you very much.

**[0:19:00.4] JW:** Yeah, I appreciate it. Thank you very much.

[OUTRO]

**[0:19:01.7] 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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[END OF INTERVIEW]

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