

EPISODE 531**[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 Jason Yarusi. Thanks for being on the show again, Jason.

[0:00:34.2] JY: Thanks, Whitney. How are you?

[0:00:36.5] WS: I'm doing great. Doing great amongst all of the chaos, doing great. How about yourself?

[0:00:42.1] JY: Yes, same here, we're just talking offline, right? Young kids on both our sides, it's pretty much like they don't know what's going on so they're just going about their business and they're watching the other people, they do know affected in so many ways. It's unfortunate, it's going to be interesting. Let's say that.

[0:00:59.1] WS: It is going to be interesting. And you know, Jason was a guest actually not long after we started the show, show WS45, he was also in the show WS337. And so, even that's been a good while ago now.

But a little about Jason, I would encourage to go back and listen to those shows as the listener but also, just know, he founded Yarusi Holdings, a multifamily investment firm with over 800 units under management. He hosts The Multifamily Foundation, a podcast that provides

actionable content and tools to build and strengthen your business, covering all things multifamily from finding deals to raising money, to asset management. And he's the founder of the New Jersey Multifamily Foundation Club with over 2,000 members that focuses on real estate syndication, multi-family investing and trains others on the success formula to buying apartment buildings at multifamilyfoundation.com.

Him and his wife Pili are amazing, they put out some amazing content almost daily, right?

[0:01:56.4] JY: We do. We just keep putting it out there, I think we just keep it going and just trying to keep the energy and right now, it's a good time. People need to hear the good word that you know, this is a rough time and a couple things we know, this is going to pass, right? It's not going to end exactly how we see it. So, we can't worry about all the worst case scenario because whatever you worry about, it's not going to end like that and the sun will come up tomorrow.

[0:02:19.5] WS: Yeah, one of Jason's super power is asset management. And I think I've even heard that from other people, Jason. I can't remember if it's somebody that partnered with you all at one time or something but just really bragged on you for that as well. I thought it's a great topic too amongst what's happening right now in our country, and even worldwide but specifically in multifamily.

I'd love to just dive into that Jason and us talk about just ways you make properties perform, you now? We can't always raise the rents and this is a great – I mean, it's just a great time right now to talk about that because obviously, we can't raise the rents, maybe like we were projecting but we still need the properties to perform at the best that we possibly can make them. And let's just jump in, why don't you get us started with some ways that maybe you all are increasing value or making your properties perform and we'll jump in to some asset management.

[0:03:07.7] JY: Sure, thank you again for having me. Potentially we'll touch on two parts, right? We'll touch a little bit on I guess property triage right now.

And then also, just if you weren't in this, what we'd do for some areas where we look at the properties outside in and we focus on rents last. But if you want to talk on property triage first, some of the main things you have to look at right now is that we don't know, ultimately what's going to happen. You know, there's going to be tenants that just can't pay rent and may choose not to pay rent and we can estimate and hopefully see how that pans out and there will be money coming down that will hopefully help tenants, help people really keep on pace without having too much disruption overall past what they've already have in their life.

You may need to look at your business and just like businesses overall and see where you can cut the fat. There's so many things that happen and you just think about you and I, right? From the certain day. You know, you signed up these subscriptions that you pay attention to and you're paying out five dollars or \$10 or these little things are going out right now. Those are happening month to month. They're just little nickel and dime things that those eat away. And the same thing with the property here.

If you have a lot of little bills that are happening on your properties, you only get down and get to nitty gritty, what are these costs? Because if you're not going to have revenues coming in and cut down these little costs in the bottom line here, that can substantially cut back here and help you, right?

You can think about – If you're having some extra use on certain areas like electricity, you have common areas that are being left on and the lights running all the time. Or you have certain things where you're not training your tenants properly which is a big thing especially your C class property, you're not taking care of the property to pay attention on who is having running water. One of the things that will come on to, we'll take on a building is we'll let the tenants know that we want to fix the problems they have.

They get accustomed to having prior ownership who may have not taken care of the building right and so just say, "I'm not going to call down because they're not going to come fix things," and next thing you know, you got a leaky toilet or running faucet that happens for two, three, four, five months. That's just money literally wanting right down the drain.

We make sure that we do a water walk to start and go through all the units, identify problems, identify areas. And they will also continually have a rapport with the tenant base to make sure that they're up and they'll make calls. And we'll find doing that, it will cut down our water bill a few times 10 to 15%. And we'll couple that doing another water savings program, where it doesn't cost a lot of money.

And maybe right now, you may hold off on CapEx problems, but another part we'll put into there, is we'll go change out all the toilets for low-fresh toilets, we'll go in and change out the faucets and shower heads with aerators and we've had it times that they cut down on our water bill 30%. And if you look at that from a value standpoint, we've had that decreased, our building value by a couple of hundred thousand dollars from just changing –

[0:05:57.1] WS: Nice, that's all worth it, are you all doing RUBS as well?

[0:06:01.7] JY: We'll do that usually at first if we can't do RUBS, some properties sometimes you always want to identify what you can do, right? We had a property where we thought we could do RUBS but the reason we didn't do RUBS is because there is a surrounding property owner who own over 300 something units and that was the majority of units.

He chose not to do rents and what you'll find is be very careful where the market could warn that you still have to be selective based on the other landlords who are around you because that owner, not doing that, basically set the tone for the neighborhood. There's another owner who try to do it and he actually, metered, all the units and then would build back tenants and the tenants paid rent, refused to pay the water bill.

Now, you have another decision, "Okay, do I evict all these tenants because they're not paying their water bill?" Well he chose – he actually now paid the three, \$4,000 separate meter in each unit and then now back paying it, paying the water bill.

So you have to be highly informed about what the other properties are doing and specifically the largest property because that's basically the rule to get it, where you can basically level up to do what that owner is doing but you use something that's still outside the box, to really affect your

tenant base, you're making push backs from the tenants because they're going to find that that owner's strategy is dominating the market.

[0:07:16.1] WS: Okay, nice. Water walk, I love that you call it a water walk and finding ways that you can cut water usage and you talked about educating your tenants too or whether it's common area or is there ways we can cut power.

A lot of common areas probably right now are not being used anyway or shouldn't be, we should be educating our tenants about not using them. But keep going on ways that we can increase the value of our property without increasing our rents or ways that maybe we hadn't thought of.

[0:07:42.2] JY: Sure, right now, we're going to go back to billing, I would definitely be looking. You have time now, right? I'd be looking at all the contracts I have and see where I can cut the fat in those contracts. Take the time to go out there and source what will be some of these because generally, you may not be an attention but each year, as you allow these contracts to roll over, they may have garnered and increase that is happening or they may be putting an increase that are just updating you as you go.

You're not paying attention that you're actually paying over market because you haven't sourced the market again. Think about that for landscape, or pest or other ones.

Also, if you do have these things that are happening right now like pest or anything, is there any side line where you're not making that payment? You want to see what payments can be sidelined right now that are not of major importance that are not dominating to the property that you can maybe take it off, right? If you're having these things or maybe you're in a warmer area, you're not going to pool clean for a while, can put the pool on hold for the month and really cut back on that cost?

And these are really just cost savers for now, but that may be important to some people here who are maybe into the repositioning phase, maybe a little bit short on cash flow. For us, where all we are looking at the marketing in terms of income, you do want to make a choice here now too as you're going to ask the management is, are you going to – our philosophy is we don't accept partial payments.

Either going into your now too, you want to look at how you're going to work with your tenants throughout this plan here. Are you going to accept partial papers? You know, are you going to work with them through the process? Are you going to try to do some rent credit? Are you going to maybe, if you are leasing up, not put in application fee? What we will do when we're bringing on new property is we're going to see what is not being used optimally for this property that does not fit with the market?

You know, a property for instance may not have a tenant screening process. We take that property on, we'll start charging application fees. We'll go in there and look at the other fees that could come online. We'll put on moving fee and that moving fee will be good because that will bring us incomes to the bottom line. Right now, if you are going to charge a deposit what you could do right now is go in there and change the virtual movement fee and couple that with a sure bond.

What that could do here is that could provide you with additional income right now, today if you are as it releases when you need that income. Instead of now having that money that has to be sitting their sideline, that's going to be other from a year doing that this term that you're potentially get out, you know, maybe get someone at the end but just be side lined.

Extra income that you can bring online right now that could hopefully couple against the income that you're not having it from the tenants.

[0:10:09.0] WS: You called it a move in fee?

[0:10:10.8] JY: Yeah, it's basically a property or a unit ready fee. And so, we'll do is, we'll generally do this coupled with a sure bond, that share bond will generally cover up to about a month's rent back there. And then we'll find by doing this here, we the income upfront, your tenants pay for bond and we'll charge for the moving fee plus the sure bond, slightly less than it will be for the security deposit.

It would still be appealing to the tenants because they're paying less than have to do with that security bond. But it still covers us from the point then after a year if they do have damage, we're covered by that sure bond to put down there, we're not completely out of the wind.

That becomes another whole income driver for us. We can add that on especially now where if you do have leases and people are still going to lease. Remember, although we did have the tax returns, your tax return payment did get delayed and get enough in that point, people still did file for the taxes, people are still doing their tax returns back, this is still a predominantly strong leasing season.

So, as this opens up, there will be leases that happens. People do need to have somewhere to live. And ultimately, it's a weird time for people to have trouble paying rent. But something that's different than you know, 12 years ago is that we are still at a complete housing constraint right now.

They're not building at a point here to keep up or actually, the opposite effect. I'm sorry, we're having a lot of people that need more housing in compared to the number of houses that are being brought online. They're still going to be leasing.

So, if we can use that leasing to our advantage here and see where it can bring in other income drivers, right?

If you can add on pet fees rather than these little fees right here that can assist with the property, we gave you a little other income generators here that help triage in some of the other rent come in, that's going to be a nice way that you can look on bringing value to the property, while you're still trying to sustain from the other tenants that are not coming back online.

[0:11:56.1] WS: Yeah, right now, with everything that's happening, obviously with the coronavirus and everything that's happening. You mentioned about accepting partial payments and I just wondered your take on that maybe before the virus versus and also going forward, you know what your stance was and is that going to change?

[0:12:11.6] JY: Sure. So yeah, we did not accept partial payments before. That is a practice ultimately if it was someone who has making a partial payment would be with your bad actor then it just sets off a delay onto it you did have to go to eviction.

Now on that fact we are reassign that now because you are going to look at point where there is a complex here that we want people to pay rent but we understand that this is a unforeseen time, right? This is a time in here where this was caused by something that was not in to the “renters” or in our control. So, we are going to work with them whether or not we do that or we transition even if there is some other funds and put this into the back part of the lease right there. And then extend, make them do or at least trying to extend the lease because we do have to same part where we need to hedge off and see at the same time.

If we are going to have 50% of the building, worst-case 70% of the building, and who knows at this point, you are trying to understand what the tenants’ obligations are currently to get a better feel of what’s going to happen. But ultimately, we’re not going to know truly whether you can have people tell you what they want truly what is going to happen until we get into this April forecast year.

Plus, you are going to look at if they do get money from the government, ultimately, you think of it from a tenant’s perspective. If the tenants are having trouble with their finances right now or financial and that point comes up where the check, I don’t know if the first I guess opportunity or first want is going to go run and pay the landlord, right? They may have to worry about more with family and everything else first.

[0:13:43.4] WS: Sure, yeah. It is a difficult balance isn’t it? We have never done any partial payments either for the exact reason you’ve said. But people are going to have some hard times and like you said we don’t want them to leave. But it is hard to balance that and we want to work with people as well.

[0:13:57.7] JY: We’ll get through it. I think of this like you remember that movie *Twister*?

[0:14:01.5] WS: Yes.

[0:14:03.0] JY: That so I just keep thinking of this movie, right? I don't know why it came to my mind but it is a movie about chasing tornadoes, right? And they're out there chasing tornadoes and right in the end is the climax of the movie and they finally are chasing this and then the tornado turns and it is coming right at them, right? And then they run, they find cover and they find cover in this old barn.

This old barn has all of these old tools up there. These knives and forks and now they are going to have this tornado hit with all of these knives around and then they run, they find themselves and they put themselves right to that piping right? And then they chainsaw the piping, all of a sudden, they have the eye of the storm right on top of them flying away and all of a sudden, they look up into this beautiful part right here and then it all moves on. And that's how it is going to be, right?

You are going to have the eye of storm over you. It's going to happen for a lot of other people whether you're not the storm is going to pivot at you in some way when you don't expect. And then all of a sudden it is going to be over and then everybody is going to move forward and we are all going to get through this.

[0:14:53.2] WS: Yes, so you know around asset management piece, anything specifically that you all are planning outside of like the partial payments or the move in fees, anything else that you all are planning or ways to prepare to better manage let's say two months from now?

[0:15:09.3] JY: So, we are being as proactive with our tenant base as possible. We provide them letters. We provide them full updates. We have text alerts. Constantly foregoing now with the tenants especially now as we want to limit the need for them to be coming into the office. We have facilitated ways for them to pay rent in a number of different forms whether or not they wanted to go and pay ACH. We have other ways they could pay online to be able to do this so that when payments came out, they don't have to come out and drop off the check.

We also are looking at to see really the guidance are they having trouble currently or is this going to be a new scenario, right? Just looking at past collections are going of where we are, we have a pretty good read of where that was. Honestly, we had – funny enough, we have two evictions go through our one property. We had our lowest collections that has taken over.

So, it is a funny circumstance here where I have never been at zero on a property and I did zero for the last month in one of our properties, which is uncanny to say the least. And it is going to be a name-name from where we were last month and this month to see how goes over. So those are our main points to really keeping the tenant communication open making sure that channels are open.

We can think through a lot of scenarios. We are also working under Kentucky on its own, it has a number of different programs that are potentially coming on the pipeline. So we have also now about the where the tenants to make sure they are aware of the complete programs that are coming out, also spoke to them that they need help and we will help them throughout the program applications to make it as seamless as possible for them to be able to get further responding as well.

We make sure that is in place. So, anything we can do to facilitate the process for the tenant base is going to be key because there will be tenants that we don't know about. There will be tenants that will send our hands about it could and a lot of different things will happen that will keep people from moving quickly. And time is going to be in essence right now where we're going to need quick decisions and move quickly because even if it is, you need an opportunity to funding.

As you can imagine that if you do day one with the 10 day there is going to be a million applications in front of you or your tenant base that is going to need to get through before they can move down the queue.

So, we're really just doing already to keep communication with tenant base. Get ahead of it to facilitate other than it can with the tenant base and then ultimate plan how you can cut costs in the back end, working with the management company to talk everything.

Sideline capital expenditure basically projects that are not with life sustaining or not anything that is going to come up that's going to be a major issue that needs to be done today. If a choice of paying a building that is going to get side market. It is something of a stair repair that was potentially going to call some kind of accident that is going to get done.

So, we are going to look at it what is vital to the property right now and what can be sidelined. And then hold off on those projects also because you are going to see the labor pools maybe worried to work right now. They may not be wanting to be doing this project so know that there will be a time to also now reach out whether the maintenance company was having a – A man company that is having trouble finding workers, right?

So, you move your part where it is hard to source workers. Well now there is a lot of people out of work, so this is prime time where we get also help the other end to have more job opportunities available to people and now have a base of people who need new jobs.

[0:18:12.2] WS: How have you found best to communicate with tenants? I know you mentioned like text messages and things like that. Because I know a lot of tenants don't want workers or anybody coming into their units and partly, I don't blame them. You know, obviously, unless it's something that's critical that we have to get fixed and we are going to get it fixed but how have you found best to communicate because they can't come in leasing offices a lot of times either so there is a barrier there for some, what do you all use?

[0:18:36.0] JY: So, we do all chains of communication because you are not sure which each person would be able to know this exactly. Some people are texters, some people like the phones, some people are doing Facebook Messenger. So, we go through any of these different facets. So, we're emailing tenants, texting tenants and there's straight up call some tenants. And then you'll find you have to communicate on all levels here because each tenant is going to have a preferred chain of communication.

[0:18:55.8] WS: Right, what about just a couple of minutes left Jason before we run out of time but are you looking to still buy and invest in real estate right now in the near future, what is your outlook over the next few months and also your investing plan?

[0:19:08.3] JY: Yeah, absolutely. Yeah, we are still passively aggressive and that is how we always are. And so, we had one opportunity we were hot on right before this was happening and we've stepped aside right now just look at the funding options. I think the funding options are

going to be highly unique for the next couple of months. So, you want to make sure that we can also do our work.

Plus I don't know if we would be quite best use of either party's time if we were to go in their contract on their property today because by the time we had to shake out for the next two months of doing due diligence and everything here, the financial outlook is going to look completely different.

So, the property we started with is going to be a completely different property a month from today. So ultimately it is our buying criteria and essentially our pricing data is going to change potentially. So, this will let things shape out for the next couple of weeks being conservative on and looking. We are still true to our numbers. We still know that this is not a black swan event. And so, looking at how this is happening, the need for real estate, the need for housing units is still going to be there as long as you buy right, have cash reserves, cash flow and not long-term debt.

[0:20:11.9] WS: What's been your takeaway from your communications with your investors? Are they still looking to invest or are they sitting on the sidelines or you know where have you seen that process be right now?

[0:20:23.7] JY: A complete mix. You do have people that are completely opportunistic and then other people who have had a good shared money in the stock market who do want to invest out or have gotten crushed or the people that are just concerned about their jobs. So, it's an open communication with investors as well.

You want to talk to them. You want to be open about the scenario of what could potentially shape that for new opportunities and get their guidance. And if an opportunity is there, there are people who want to invest and you do want to be conscious scenario ways. I do know that a couple of people have lost their job already and I know people that have had a pretty dire couple of weeks in the stock market.

So those people may be waiting for things to shake out right now. This is depending on their age too. If they're younger, they may be a little more open opportunities. If they are someone who is

an older person who just lost 30% of your portfolio in the stock market and you are coming up in retirement, they may be a little less keen to dive in right now.

[0:21:16.0] WS: Yeah, all right Jason we're all grateful for your time. Unfortunately, we are out of time but tell the listeners how you like to give back?

[0:21:22.3] JY: Oh man, well right now let's just say how can we give back – So let us just do something different than usual. How can you give back and you can't get house and do anything right now? Well there is a lot of people out there right now that feel isolated. But I bet if you just reach out to them and say in hello and just say, "I am thinking about you," I bet that will go a long way.

[0:21:40.6] WS: Love that. Jason, thank you again for your time and just sharing your expertise definitely in these times and I know other operators are grateful as well that are listening. And investors too that are wanting to know how operators should be managing their properties during these times and tell them how they can get in touch with you and learn more about you?

[0:21:56.0] JY: Sure, yeah you can go over to Yarusi Holdings. We have everything that we are doing over there, from learning how to buy apartments or how you can learn about future opportunities or follow me on Instagram at Jason Yarusi, I run really far. I do that a lot. You can check out what we are doing over there and so that is usually the best way.

[0:22:11.4] WS: Awesome, Jason. That's a wrap. Thank you very much.

[0:22:13.6] JY: You got it man, thank you so much. I appreciate it.

[END OF INTERVIEW]

[0:22:17.4] 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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