

EPISODE 619

[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 Brian Gibbons. Thanks for being on the show, Brian.

[0:00:33] BG: Well, thanks for inviting me. I appreciate it, Whitney.

[0:00:36] WS: Yeah, I'm honored to have you on the show, Brian. A little about Brian, in case you haven't heard of him, he specializes in creative financing, avoiding banks, and needing credit. Since 1986, he has been a professional real estate investor, so he's just getting started. Right, Brian?

[0:00:53] BG: I got some gray hair in here, but it's dyed a little bit.

[0:00:55] WS: So grateful for your experience and that you're willing to share it, Brian. He's the owner of Real Estate Investing Coaching Services, and we'll have a link in there, reiskills.com.

Brian, thank you again. I want to jump right into your background to some extent because I know you shared a little bit with me of how you got started, and I get that question all the time. It's so difficult to get started, right? I mean, the first deal is like the most difficult hurdle to jump over in getting into this business, and so I just felt like you had some just great advice in how you did it. I think that could help a lot of the listeners.

[0:01:29] BG: I'm happy to share how I got started. I actually came from an absolutely non-related field, but it was in sales, and it was in commercial air and water flow equipment. Now, that sounds pretty boring but it was through Johnson Controls and it was a big commercial company, and I was in sales in that company, and they let me go. They said, "We're downsizing," and they let me go.

[0:01:55] WS: You thought you had that secure position, right?

[0:01:59] BG: Security. I don't know what is secure but, yeah, it rocked my world a little bit. As the fortunes had it, I bumped into a fellow who was in his 60s, and we were out in a restaurant bar, and we just said hello and what do you do for a living. I said, "Well, right now I don't do very much." He said, "Well, what did you do?" I said, "Well, I helped contractors with some specialized equipment." He said, "Well, do you like sales? You enjoy that?" I said, "Yeah, it's pretty good." He said, "Well, I'm in a kind of sales business too. I help buyers and sellers solve problems of real estate."

I liked how he positioned that, solve problems, because the opportunity is in solving a problem and investing. If you can't solve a problem, then you can't make a profit really. So, I said, "Well, how does that work?" He says, "Well, we have some marketing and we have some folks that run into some problems with their real estate and we offer them solutions." I said, "Well, what sounds pretty good." He says, "Well. If you'd like to get more information, here is my card and you come see me for about half hour and I'll show you some examples. If you like that, then maybe we'll put you to work."

So, I'm thinking, "This sounds terrific," and he gave me a sales track to go on, and he gave me leads, and he gave me a guaranteed salary. I made \$500 a week. His name was Glenn. Glenn and I worked together for about two and a half years.

[0:03:37] WS: You must've made a good impression.

[0:03:41] BG: Well, what I loved about it is I didn't have to do any marketing. They actually set appointments for me. I had to be on time, look nice, be nice, and stay on the sales track. So, I

learned all sorts about handling objections and dealing with difficult people, and I've seen it all. I've seen divorces. I've seen probates. I've seen angry customers. I've seen people yelling and screaming at me. My EQ is pretty strong after two and a half years. EQ is that kind of ability to deal with difficult situations. Plus being an ex-Marine probably helped a little bit when I served in the Marine Corps.

End result was I worked for this man for two and a half years, and I made \$500 a week, and I learned all about seller financing and notes and negotiating with sellers and marketing and all this other stuff, and I came to an aha moment. "I think it's time for me to go out on my own." So, I go and talk to Glenn and then I said, "Glenn, I have bad news for you, buddy. I love being here. I love being part of this family but I've saved up a little bit of money, a few thousand dollars. I'm going to go open up my own office and get started on my own and put my name on the door."

He leaned back in his chair. He always had a big smile and he never got flustered and he said, "Well, I got two things to say to you. First thing I have to say is what took you so long to quit? Because I've taught you everything there is to know about real estate, real estate negotiation, real estate contract, all of this other stuff. But you kept hanging in there for \$500 a week when I'm making like 20 grand a deal or 40 grand a deal or whatever it is."

I said, "What took you so long?" I said, "Well, I guess I got lazy. I enjoyed people doing marketing for me. I enjoyed people doing all the – I'm not paying any insurance or office or anything like that. I just like being a worker bee, I guess. But then I got tired of it."

He said, "Okay. Well, the next thing I need, –" He's not really asking a question. "I need you to do me a favor." So, he takes out his checkbook and he scribbles out a check and he puts it in my pocket and he slaps me on the chest and he says, "I need you to leave the office right now and don't come back and let me know when you get your first deal and we'll have lunch and we will talk about it. How does that sound to you?"

He turned me around and pushed me out the door. I'm going, "What did I do wrong? I don't want to lose this mentor friendship during and all of this other stuff." So, I walked into my car and I scratched my head and I said, "I don't know. I wasn't expecting to leave right away." I pulled out

the check, and on the check, on the my memo it says, "To my good friend, Brian." Then the amount was to the order of Brian Gibbons cash \$15,000.

That's the most amount of money I've ever had in my hand in my whole life because I was a worker bee. When we're worker bees, we just do our thing and we try to save a little bit of money and try to be a good employee and not get fired and all of this other stuff. But that's not entrepreneurship, is it? That's not owning an office and having your name on the door. That being said, that was my first self-employed business, and I've had a couple since then. But that's my favorite, my first one that I started out.

All you folks out there, be apprentice for a little while. It doesn't have to be forever. But find somebody that's great at what they're doing. Suck up all that knowledge. You work for knowledge and not money. Make sure they're an entrepreneur and they can teach you the right things about getting started. Keep that relationship because you always need to bounce ideas off of somebody that knows and understands you and cares about. That's my advice.

[0:07:44] WS: I'm grateful. I mean, I didn't take that advice early enough, like trying to get out there and do it myself. It's been 10 or so years ago now. But I've hired many coaches and people since then who have helped teach me. It's so valuable having somebody there that I can ask questions of that's way ahead of me. I know earlier you had mentioned before we started recording, you said like there's nothing that replaces that face-to-face interaction.

[0:08:10] BG: Whitney, I can't underscore it enough. I read all these posts from real estate investors that say, "Hey, you're going to be overseas and do this pushbutton and email and marketing and all this other stuff." I just don't think you can get signatures on agreements that involve real estate that are worth a good amount of money without being that face-to-face. I just don't think you can do it.

[0:08:34] WS: I assume you and he, Glenn – I think you said you all kept friends longer after that. What was your relationship like after that when you started doing your own deals?

[0:08:42] BG: Well, he was a great teacher. He knew that I was very reliable. I was very honest. I never said something under promise and over deliver, that UPOD. Everyone's heard of UPOD

before. But I always under promise to my sellers and I over delivered. He liked that about me. He says, "You're going to do fine if you keep your ethos and you walk away from shady deals. You walk away from sellers that aren't going to tell you the truth or hide in things. Better off just finding another transaction to work with."

I did stay with his friendship. We had lunch like once or twice a month forever for years. He just taught me lots of things. I remember bringing one deal to him. I said, "I'm stumped. I don't know what to do with this." He says, "Well, there's a little known technique that I'm going to teach you here on this." On a napkin, he just drew out a little picture and pushed it across. I said, "I never knew that. That's pretty cool." He also knew a lot about financial planning and estate planning and reasons why people would do things on a financial planning or an estate planning basis where they wouldn't do it without explaining that part of it.

That's another piece to the puzzle on real estate. A lot of people don't realize that, especially older folks that have property that are free and clear. Like for instance, we can do seller financing on a free and clear house or a free and clear apartment building and actually have better numbers for the seller for both taxation and cash flow. There's all sorts of reasons why to doing things.

[0:10:23] WS: You are an expert in using options to buy or to sell properties. I want to make sure we have a little time to talk about that, especially related to commercial property and opening the listeners' eyes to maybe some options that they didn't realize that they had getting into this business and master leases and with the purchase options, things like that. I'd love for you to just get into that and let's discuss that a little bit, so the listeners can have a better understanding of what that is.

[0:10:48] BG: I think what scares people a lot about commercial property is the amount of money you have to put down and where am I going to get that. Even a small multifamily, you're going to need 20, 30% down. With this coronavirus around, I think lenders are going to be even more strict to lend. Money's going to get tighter, so we have to get schooled on more creative ways to control and buy commercial property. Do you agree with that?

[0:11:20] WS: Yes, no doubt about it.

[0:11:22] BG: When we use a master lease to control property with an option to purchase at an agreed price in a few years' time, it could be three to five years down the road, then you sub-lease and get new tenants for cash flow. That is an interesting creative strategy, and it's not talked about a lot. Would you agree? I mean, you've had a lot of shows here. You don't hear it too often.

[0:11:45] WS: I don't think – We've probably talked about it twice.

[0:11:49] BG: There you go. Well, you put this one under creative financing and apartments, and maybe other folks will get a chance to hear that. Whatever you think is best to put it.

The other thing you got to realize is that you don't have to get funding when you exercise your option. You can actually sell that option. In other words, you don't have to get financing down the road. You could find an investor that will buy your option. For a large building that's worth \$1 million, they might pay you \$100,000 for the purchase of that option if you can increase the NOI over time.

Less down money out of pocket. We talked a little bit about that. It's cheaper than hard money to buy an apartment building. They're pretty expensive, aren't they?

[0:12:40] WS: They are. They are very expensive.

[0:12:41] BG: They make their money no matter what, hard money lending. I just want folks to know that there's another technique you can use to not use hard money. If you use a master lease option apartment building strategy, you don't have to pay the typical loan origination points for temporary loan, which can be like 3 to 5% of the loan, and that hurts. That's a lot of cash. There's less money at risk when you entered into a lease with an option to buy, because it's generally first and last months' rent and maybe some option consideration. That can be as low as \$100. That's pretty cheap to get into an apartment building.

Furthermore, if you structure that properly, it will be a single purpose entity where there's no personal guarantee. Now, PGs make people nervous about being a personal guarantee on a

bank loan, a commercial loan. Well, there's no PGs involved with this, so that's one of the reasons why I like master leases with an option to buy.

I'm going to talk a little bit about something that's a little advanced and confusing, and you need a bit of a tax background for this. But there's no debt-financed income tax on IRA investments. Now, if you've invested your IRA on property that is debt-financed, you may know that the income from that investment may be subject to what's called UDFI. I mean, that sounds way out there. But if you ask your accountant what UDFI, it's unrelated debt financing income tax, and the master lease is not a loan, so the net income on your IRA is not subject to this debt-financed income tax. That's pretty important when you're dealing with commercial real estate investment as far as looking at all the pieces of the puzzle, including the taxation.

I want to talk about there is kind of one downside to this on a taxation basis. When you exercise your option and simultaneously buy and sell, well, you have it hell-bent on title long enough to get the long-term capital gains tax treatment. You need 12 months in a day to hold something in order to be able to get the best tax treatment under profit. When we figure out these deals, we always look at what's the taxation of the profit.

There's a couple other things. You do need great legal help with these contracts because there are some pitfalls to avoid, and I really think that folks should be avoiding some pitfalls with these master lease option agreements. The first pitfall is the seller could simply say I'm not going to honor my option with you, and then you got to sue them. Now, I've never had that happen to me with my paperwork. I'm just saying it could happen. They could say, "I don't want to honor the option." The second thing they could do is they could end up in a bankruptcy, the seller. The third thing they could do, they could die or disappear. You can't find the seller.

Well, we have ways in our paperwork to avoid these kinds of problems. They sound fantastic kind of problems. Oh, could that really happen, whatever. I guarantee you, there's going to be more bankruptcies in the next three years across the board from this coronavirus. If I were in law school and I was the third-year law student, I'd specialize in bankruptcy law because everybody's two weeks away from bankruptcy. People that aren't paying their rent because they haven't been paid from their job, it's a crazy time. You need really good paperwork to be able to kind of avoid these kinds of problems.

[0:16:34] WS: Talk a little about negotiating with the seller to bring that option out there and ask or find out if they're willing to do a master lease.

[0:16:41] BG: Right. Well, most folks, they just want cash, right? They just want cash. "Don't give me any creative things," or whatever. I have what I call a what-if step. If you remember anything from this recording, I want you remember Brian Gibbons, REISkills, negotiating with sellers and the what-if stuff.

Now, I got to give the appropriate where I learned this from. One of my mentors was a duo called Peter Conti and David Finkel. Now, these two gentlemen were real big in the '90s, and I'm dating myself here, but they put together a program on how to negotiate with sellers that I think there's nothing better and I use that as my benchmark as far as talking to sellers. The what-if step basically sounds something like this. Let's say we got to a cash number. Let's say they wanted a million dollars and let's say that their NOI was \$80,000 a year or something like that. My endgame was I want to be able to ask them if they would be open, just open to getting a guaranteed NOI payment for five, six years and then get paid out at the end. That's what my endgame was.

I would say, "Well, Mr. Seller, thank you very much for showing your property and all the rent rolls and all the verification. I do want to ask you one question. What if we could do the following? What if we get some kind of a transaction where I could pay you a guaranteed payment of about – Well, let's say about \$80,000. Your current NOI guaranteed to you no matter what for about, oh, let's say 60 to 72 month. Then at the end of that, I would have the right to buy the property at a set price that we set today." Would that be worth even talking about or maybe not? You're kind of like seeing if the door will open.

[0:18:50] WS: I like thinking about it, like that you're seeing if the door will open, just putting it out there.

[0:18:55] BG: Right. There's one or two ways the seller usually goes. They usually go, "I want cash. Just give me cash. Whatever you can do, I want to analyze a cash offer, and that's it." Or they'll say, "Well, maybe. Maybe we could talk about that." Then I said, "Okay. Well, this is be-

fore I even analyze the whole thing. I want to see if it's a cash or terms kind of transactions. It's going to all-cash or some kind of a terms offer, and that's how I usually deal with sellers. I don't care if it's residential. I don't care if it's commercial. That's how I deal with sellers. It's either a cash offer or a terms offer.

If you folks can get this what-if step down, I'll give you a residential what-if step to compare it to on a commercial. So, we did the commercial NOI. They understand that. But our residential, let's say we had a \$200,000 house, and market rent was \$1,500 a month, and I wanted to lease with an option with that property. I would say, "Well, what if we could get a payment that's about let's say \$1,200, \$1,300 a month for about 60 payments and then pay off your existing financing?" Would that be worth talking about or maybe not? We see if that door is open. We don't have people with a hammer in negotiation. We want people to treat us with respect and with patience and give us time to think about ideas. It's not a take it or leave it kind of hardball, especially on the creative side.

Now, if you're in like all-cash wholesaling kind of business where you're flipping the contract to an investor, it's a take it or leave it kind of negotiation. But this creative stuff is more gentle. Does that help?

[0:20:50] WS: It does. You got to get the door open before you can talk, right?

[0:20:55] BG: You have to warm it up. It's like talking to a pretty girl at a bar. You can't just grab her phone number right away.

[0:21:03] WS: What's the one thing that's contributed to your success?

[0:21:07] BG: I'll tell you two. Number one is I read a lot. I'm an avid reader and I believe that some of the best real estate investing commercial. I'll recommend a couple books for you folks that I think are great. Peter Harris's book on commercial real estate I think is outstanding. If you want to get started, try Peter Harris's book. It's called *Commercial Real Estate Investing for Dummies*. You probably have heard of that a few times.

My website will help a lot of people with negotiation. So, if you just go to negotiation tab, you will be able to do that. For your listeners, I will offer something special. All they need to do is send me an email and I will forward them a two-and-a-half-hour negotiation training that my students got.

Lastly, my advice to everyone is love this business. Hang around people that are great at it. Have mastermind groups in your local town. Be known as somebody that UPODs, under promises and over delivers. Don't ever say something and don't deliver. That's my advice.

[0:22:25] WS: How do you like to give back?

[0:22:28] BG: Well, I played the NCAA sport back East and I'm a big fan of UVA, University of Virginia, the Cavalier. I played lacrosse. I coach boys' lacrosse out here. That's my service.

[0:22:41] WS: All right, Brian. Well, I'm grateful for your time and just your experience in being willing to share with us and give back in that way as well today and just the importance of having a mentor or somebody to apprentice under and how that got you started and done so much for you and your business and just success over so many years in this industry. But then also just some negotiations there that have been so crucial and could help us a lot, just that what-if statement.

Then thanks again for offering the free course, the two-and-a-half-hour course to the listeners. I hope they will reach out to you and so that they can. How can I get in touch with you and learn more about you and get that free course?

[0:23:18] BG: Well, the easiest way is to first go to my website, and that's REIskills.com, one of the oldest real estate investing educational sites in the United States. I think it started in the late '90s. Just email me, brian@reiskills.com, and say, "Hi. I heard you on Whitney's program. Please send me the link." I'm happy to do that.

[0:23:42] WS: Awesome, Brian. That's a wrap. Thank you so much.

[0:23:45] BG: I've enjoyed it very much.

[END OF INTERVIEW]

[0:23:47] 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. 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]

[0:24:27] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge 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. Life Bridge 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.

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