EPISODE 639

[INTRODUCTION]

[0:00:00.0] 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]

[0:00:24.4] WS: This is y our daily real estate syndication show. I'm your host Whitney Sewell. Today, our guest is Jason Harris. Thanks for being on the show, Jason.

[0:00:33.4] JH: Hey, thanks so much Whitney. Glad to be here.

[0:00:35.8] WS: Jason built and controls 50 million dollars on a real estate portfolio. Comes from financial devising background which has translated into a well-rounded outlook of all investment types and founded an investment firm, founded Harris Investment Group, a brokerage and property management team, Harris Real Estate Group and a training program, Creative Gains to help other investors get into real estate in some way and achieve better and higher returns.

Jason, thank you again for your time today and being on the show.

Tell us a little more about how you went from financial advising to real estate syndication business?

[0:01:14.4] JH: The real story I guess starts that I didn't know how to make money in real estate to begin but that was always my passion and so I wanted to have a more dependable, reliable income to start out my family. And so, I did real estate on the side and was a financial advisor. I guess you should say as a financial advisor by day and a real estate investor by night so to speak until I knew enough and understood enough to make a living through real estate alone.

And so, I think that's real estate's always been really the passion but bought my first four plex in 2010 while I was in college. Lived in one unit, rented out the other three with an FHA loan about 4% down and I couldn't believe how much that helped our family finances each month by not having to pay a mortgage and so it really just got my wheels spinning as far as what I could do to try to acquire more and more. As I gained experience and learned how to acquire property faster and sooner and without money and my own money, I suppose, it made it a lot easier to grow a portfolio and get to a point where real estate could be my full-time career, that's where I am today and glad to be here.

[0:02:27.4] WS: Yeah, you bought a four plex while in college but I hear you say it supported your family. You already had a family at that time as well?

[0:02:34.8] JH: Yes, it was just my wife and I. I guess at the time. But we had our first little boy but we lived in that four plex and to be honest, I was making about as much as – I had a part time job that paid me pretty well but I worked hard on that job but the rent had come from the other three units, it was more than what I was making it my job. And so, all I had to do is show up on the first of the month, collect rent and that was far easier than trying to go get a raise from my boss at work.

It just made me realize how easy it was to make money if you control and own real estate. It just made it where it didn't really matter what I did for a career as long as it helped me get more and more real estate and that was kind of my goal. I took me two or three years to get my next property until I learned, I don't have to say but my down payment each time to buy real estate. There's other more creative ways to grow faster.

[0:03:33.5] WS: Wow, okay, I guess take us through your path to syndication just you know, quickly but you know, I know you were a financial advisor for a number of years and then you moved into real estate full-time, right? How did you build the business to the point where you can move into it full-time?

[0:03:50.8] JH: Yeah, I was financial advisor from 2012 to 2018 essentially and could have and should have maybe left sooner than that. However, I started syndicating more in 2015. I think I had eight or 10 units at the time. I was pretty good at finding deals and I just didn't have enough money to do all the deals. Started to look to family first which is the ones who may trust you the most in the beginning.

Until I had enough of a track record of proven success of doing it well where others looked at what I was doing and growing and wanted to be a part of it. For the last five years, I've been doing a lot of JV structured partnerships where I'd go find a deal and negotiate it and find the capital to make a project happen and so our team then would oversee the value-add of that and it got to a point Edward Jones, my day job income was far less than all the other income that we were making through real estate. It's easier for me to just walk away and dedicate my time to real estate full-time.

[0:04:56.1] WS: Hard to argue with that, right?

[0:04:58.2] JH: Yes. I'm also, though, grateful for that experience. I think it helped me learn how to talk to investors and understand the risk/reward and explaining things in a way that can help them know what they're taking on in way of the real estate and how it could complement other assets and their retirement accounts that they also maybe trying to grow and do well with.

[0:05:21.1] WS: I had somebody from Edward Jones reach out to me or try to get me to become a financial advisor. It's been quite a few years ago now but at that time, I halfway considered it but anyway, I'm glad that didn't work out.

[0:05:32.0] JH: It was a good career; I was happy to do it but I love what I do now.

[0:05:36.5] WS: Let's jump in to you know, maybe a recent deal. I know you're really good at deal structuring and negotiating and some financing, making deals work and making it work for each part of the deal, right? Where the seller or the buyer, you know, everybody in between. Is there a recent deal that we could just highlight and talk through a little bit?

[0:05:54.9] JH: Yeah, I'd like to share one that I closed in August of 2019, almost a year ago I guess now. I want to point out, this is kind of interesting, we just offered to do a real estate event night at Outback where I just came and talked about real estate and different ways that you can grow your own portfolio and had a gentleman thereafter who wanted to go to breakfast and learn more and he's the one who ended up partnering up with me on this deal in August, it was a 28 unit in South Ogden by Weber State but interestingly enough, he had sold a business and came into a pretty good windfall of cash but wanted to find someone who could help him get into real estate and knew what they were doing and understood the market.

Just a simple, invite people to dinner and teach them something, turn into a really good partnership where we've done three deals at this point with a lot more promise of deals to come. Interestingly enough, I found this property on the MLS and I actually scrubbed the MLS quite a bit. We do a lot of off market transactions as well but this one in particular, I felt like had good upside opportunity, t heir rates were quite low and it had some doctors actually who owned it who were obviously smart individuals but don't understand maybe the market and what the rent demands was.

[0:07:12.1] WS: Why did it not sold already?

[0:07:14.6] JH: You know, it had gone through a few different brokers who were having trouble working out, who was taking the listing. I don't understand maybe why it hadn't worked out, I think they maybe weren't doing a great job of showing what the upside capability was. The rent rates were probably in the low 700s. Actually, there were some in the 500s that most of their rents were 700, 710, average rent for maybe about 620 between the whole apartment complex there.

If you looked at it from a cap rate perspective only, it didn't show very well for their asking price but if you do what comps were in the area both from comparable analysis and also potential rent, you could see that there was plenty of upside potential. That's what excited me but looking at the operations alone probably would have scared a few off, knowing that the purchase price wasn't justified with the current in place rents.

[0:08:15.4] WS: All right, you got 28 unit or you found it and keep going.

[0:08:20.2] JH: Yeah, we actually put the 20 unit under contract first for 1.9 million and had the sellers actually cover our closing cost. And then about three weeks later, eight-plex came on the market that was really close by this asset and we found out from our commercial lender that they would allow us to get one loan between the two and operate it like it was one together.

We're able to get it together as a 28-plex, one commercial loan and have the seller cover closing cost. I paid 2.7 million for the 28 units, the average cost per unit at the time, in the market I saw was about 115 to 120,000. But these obviously it was about 96, 98,000 per unit. I knew I was getting it for a pretty good price. An added bonus I suppose as my wife's a real estate broker and so we got the agent commission by purchasing a property so an extra 3% for closing. 54,000 had the closing table, it's a nice head start to the transaction.

But anyhow, I knew there was some value-add, we went in and painted the exterior, did a two-tone paint, updated the lighting and the doors and the numbers to try to rebrand the asset to something a lot nicer and newer. These doctors actually did a fairly good job of keeping the inside units in good, clean condition and so we've renovated seven units of the 28, so about 25% and those we took from that 700 average rent range to 1050 a month. And all the others, we were able to get to 925 a month and that's without doing anything to the interior.

We put it under contract for 2.7, we got a bridge loan where the lender was willing to give us 175 of CapEx budget so we didn't have to come up with the improvements from our own capital and through that CapEx budget, we focused on the exterior first, raised the rents, you want to add some value before you come in and start raising rents on every one.

Once we had rebranded the asset, made a lot newer, we only had six people and started out only four that left of the 28, after we gave them the 30-day notice. We were anticipating having a little bit more than that and had budget set aside to go in and improve the interior once they moved out. So, now at this point, we had 925 per unit on the older units that we had it renovated. And a thousand 50 on the interior newer ones that we've renovated.

Have stabilized the asset and now we think that we can get it appraised for a little over four million in about a year's time. We're pretty excited about that deal and how it's come together.

[0:11:11.8] WS: That's significant increase in rent.

[0:11:14.0] JH: Yeah. Very significant, be different and I think that without doing any CapEx at all, 850 was very possible per unit so the good news is, just better management helped us see a big upside in that. But the CapEx took it to another level obviously.

[0:11:34.1] WS: Wow, okay. What made you see the value in that though? Because even from the beginning when we started talking about it, how is this property on the MLS, you know?

[0:11:43.8] JH: Sure, I think that they try to do it off market through the brokerage and they actually wanted 3.4 million for it. I found out later and so 2.7, I did negotiate that down. Their ask price was 3.2 between the two but I was able to get it down to the 2.7 level and it's maybe just because I caught it at a good time.

[0:12:04.0] WS: I was going to say, what was the key in negotiating that price? Lowering it in the end like that?

[0:12:09.6] JH: Well, I showed them comps of smaller units that had sold for a cheaper price per unit. I think that was one way to show them, I didn't think it would appraise for the amount they were asking. I did that from the income approach, obviously showing them a much lower rent rate of what others were selling for the same similar rents. Utilizing the data, I think helped significantly more by showing them that.

[0:12:34.8] WS: What about the CapEx plan like how did you budget for that and then also, I'd love to hear a little more about the financing too, how you – I mean, it's so creative, you were able to get both of those properties under the same loan, you did a bridge loan. Maybe you could elaborate on that a little bit for the listener that has not heard of that before and what that means, why that was important. Even to get the CapEx dollars in there as well.

[0:12:56.7] JH: Yeah, there's a few things about this that are really helpful I think for investors. One thing that comes to CapEx, it's all about ROI and which one – where can I put this money that would give us the best return on investments. the way I approach and look at it I, if I had storage units to this facility, how much just rent and come in profit can I make by putting those in? What would be the cost? Hypothetically, let's just say it would be a thousand dollars per unit or 28-grand on a 28 unit like this, but the tenants would be willing to pay $50 a month, that would be $600 a year per unit and so if you take $600 and divide it by a thousand, which it would cost me, that's a 60% ROI.

How many people Whitney would like to get a 60% ROI on their money each year? That's a pretty good return. The other way to go about it is if I renovate an interior unit and let's just say it cost me $10,000 to make a really nice renovation and improvement, what would the ROI on something like that look like? $10,000 would possibly get me a 1050 a month rent rate. 1050 from the 700 is a pretty nice pop of $350 more per unit. Times that by 12, that's 4,200 a year divided by 10,000, that's a 42% ROI.

However, you have to have down period where you're not collecting any rent. And so, if it takes four weeks perhaps to totally renovate it and then another week or two to get it filled, that six weeks without any income coming in at all. You take that away which let's just call it a thousand dollars really, it's 4,200 minus a thousand. So, 3,200 a year more divided by 10 grand, that's a 32% ROI.

As you look at this different profit centers, Whitney, which one works best first as far as how to spend the money? For me, the storage unit was a good opportunity. I have no downtime of not collecting rents inside. But it's a value-add to the tenants that I know that they'll pay for. That's how I really process it. What will give me the biggest return on my money first? And then work it down the list from the highest profit return. Because I could do all of them, I just may want to start with the best ones first.

Typically, I find exterior improvements are a great way to get the best return because I don't have any downtime of the units not being able to collect rent and immediately improves the curb appeal and aesthetics of the tenants home that they're willing to pay more for so that after say, 30 days to 45 days of those improvements having been done, I can go back and say, "We have new owners and new management in order to improve this asset in ways to make your home nicer, we are going to have to get market rate rents. With that, will come further improvements that we're doing," and I'll list those out. But in order to do so, we need to get these units closer to market rate rent which we found to be.

And usually that conversation goes a lot better because they see the new owners coming in and are already doing a lot to make their home a nicer place and tenants sometimes thank you for it, they say they knew that their rent was low. Obviously, you get some that are pretty upset. But more times than not, we're able to have those conversations and they may start out saying that they're going to leave. However, when they start shopping and trying to find something else, they realize, we really are asking about what's market. They realize how much cost it would be in order to move and they realize, these new owners really do care and are trying to do good by us and so the decide to stay.

I think we did pretty well, had I had too many leave, we may have asked too much. Had I had no one leave, I didn't ask enough. And so, getting five to seven I think was right around where we would have wanted it to be. So that we could take the additional CapEx from the lender to go in and have our team improve those units to see what the higher end of the market rate rent could be at that thousand fifty number that we filled them with and so that was one answer to your question.

I guess the other one the bridge loan, why I like it so much is they vet the deal for the exit of what you believe the stable rent rates will be after you make the improvements and you give them your business plan of what you plan to do and what you expect that time frame to be. And so, this bridge loan was an 80% leverage option where we only had to put 20% down and further more because the lender paid our closing cost, we really only had to put 20% down.

And so, it was about 540,000 plus some change. I think it was about 550 overall, maybe that had to do a little bit with some of our due diligence costs but the partner put up the 550,000. I didn't put a dime into it with the expectation that he gets all of his money back before we split the equity and cash flow 50/50. And I told him my expectation was to be able to do that in 18 months even though it was a two-year bridge loan and so we're starting that. In fact, actually, he's decided to sell. We are actually going to be selling it instead of refinancing only because he wants to take our equity and go and do it again in a bigger project so.

[0:18:24.1] WS: Nice, will you all1031?

[0:18:26.2] JH: In this case yes, we will. We got to justify long term intent, which I think that we can so yes.

[0:18:32.9] WS: Any other ways that you've been creative about tax sheltering?

[0:18:37.7] JH: Yeah, thanks for bringing that up. As a previous financial advisor, I studied the wealthy often and learned to see different things that they were doing and had an opportunity to sit in on some pretty advanced tax strategy sessions with some of the affluent families that we represented.

And one thing I learned, Whitney, is that the wealthy don't invest in real estate specifically for cash flow alone, which was my main driver. I thought many it was their primary reason for investing in real estate.

But the number one reason I find that the wealthy invest in real estate is the tax shelter benefits. And so, this gentleman who I partnered with on this Ogden deal for example, he actually had sold a business for a significant amount and with that came a hefty tax penalty obviously. And so, what I am finding, Whitney, is that if you are a real estate professional instead of a passive real estate professional, active versus passive on your tax transcript you can actually take depreciation loss from your real estate you own and use that depreciation against all income sources not just passive income alone.

And so, most people who I talk to are using depreciation on the straight-line method to shelter their cash flow from their real estate and whatever they don't use, it carries forward to the future years. However, in the 2018 Trump tax law, bonus depreciation came into play and allows someone to accelerate the depreciation to get a significantly bigger benefit.

On this $2.7 million transaction, we are looking a little over a $1 million in the first year of purchasing it to take and get that $1 million against all income. And so, my partner on his percentage is taking his piece and using it to shelter some of the income he made from the sale of his business and that money is now more than a $100,000 – Well, now, for his, it is about

$235,000 tax refund that he is now able to go back and claim and obviously if you look at that return just on his 550 that he put up for this, you know that is already 45% before you even look at cash flow appreciation and principal reduction of the loan.

So, he will see probably a triple digit return just in one year with the way we are structuring it. And obviously, my return with not having any money tied into it is also quite significant. So, it is really just my time I am exchanging.

[0:21:14.3] WS: That is an awesome opportunity it looks like you've put yourself into, Jason. I know that happens by accident I don't think. You're definitely very intelligent. You have studied this and have done very well on this deal and I am sure others also. Tell me though Jason, what's been the hardest part of this syndication journey for you?

[0:21:31.4] JH: I think the hardest part for most people is capital raising. Deal finding is also right there so it is hard to say which is which. I think though putting in the effort in time to find a deal knowing there is capital to back it that's obviously a really hard thing to do. So that is what I am going to stick with, I guess.

[0:21:53.0] WS: Was that for you? Was that the way it was for you?

[0:21:55.6] JH: Yes, I have been fortunate though. I think, Whitney, if you can establish yourself as a financially responsible steward of your own money and other people's money it goes a long way to instill confidence in others to feel confident in your ability to protect their cash but also do well by it.

And so, I am going to say yes but I think others perhaps have struggled a little bit more, maybe then mine has been where I had a financial advising background, where I was already representing people on their other assets, not that I was prospecting within my own client pool but it taught me how to understand the needs of clients and what matters to them and we have asset protection and growing their wealth in a way that is comfortable to them.

So, it is difficult, but if you can prove that you are a smart financial steward that you care about them succeeding and winning in a mutually beneficial partnership, it makes it a lot easier because they see that you are sincere and that your effort is for both parties to win.

Because you don't want it to be just one deal, you hope to do a good job the first time so you can repeat that process over and over again. And so, I think as people see that and understand that you are capable of overseeing a project to its completion and doing well by them, you will have plenty of capital partners available through the next one.

[0:23:26.0] WS: How are you prepared and you can use the same deal if you want or advise others to prepare for say a potential downturn kind of like we're everything is we are experiencing right now.

[0:23:36.0] JH: Absolutely. Well it starts with the numbers first, I believe. You have to make sure that you are in this case my exit would work to have different exit strategies. Our first one was actually to refinance this one and knowing our numbers could be supported is critical, meaning I need to know what the current operations numbers are of the property I am buying and I have to feel confident also in my projections of what I think rents can get to.

Both on the income and what my expenses are going to be both now and when I'd stabilized it after making improvements and so that is one way, I think that helps because that lets me know what my profitability, my NOI or cap rate is thereafter. And second, in a bridge structure obviously, I have a determined date that I have to make a decision by just sell it or refinance it anyway, so it almost puts you in a more uncomfortable position to make sure that you know how you are going to exit.

And so, cash obviously helps having liquidity and other assets to help yourself if you need to keep the property but values have dropped. The higher rent rates, which we did achieve but assuming we weren't able to due to some type of market downturn in the economy, could have made it to where we have made all of these improvements but weren't able to raise rents even after injecting more capital.

And so, having the relationship with lenders, making sure that you have a stronger cash position and knowing that you can operate the property in a higher performance and higher NOI will I think minimize the risk that you take because I think it is impossible to take it completely off the table.

[0:25:17.0] WS: True. What is a way that you have recently improved your business that we could apply to ours?

[0:25:22.0] JH: I am trying not to be as involved in every aspect of the business and entrusting others to head different aspects of it and I think that has helped for us to grow and expand in a way that if I have to do everything I can't because I don't have enough time to do it all. So, we've started a prospecting team to find off market opportunities through mailers and phone calls and texts. We use CoStar in ways that we have data that we can reach out to landlords.

Secondly, I started a brokerage at a property management company. So, properties that are in our market here in Utah specifically, we have the ability to manage and I have some control when we are doing a value-add project for our property managers to know what the current operations are and what the future operations we hope to be. So that they could help oversee the project management side as well and also hiring an asset manager, which acts in the capacity of a project manager as well.

Why that's critical is because we have a fiduciary responsibility, I see it as to perform in a way that helps us achieve the desired outcome and return for our capital partners. And so, I know how to do that myself but having the time to do it is a different question and so I have an entrusted asset manager who is now looking at each of our projects, who is helping me carry out what we need and keeping contractors on schedule, on time and letting the property managers know when we need to give 30 day notices.

And the leasing agent when we need to be prepared to lease it up as well as different activities that we can do within the culture and community of that asset to change what the community thinks of it because we're looking typically a class-C, class-B community and trying to improve it in the eyes of the community. So, we do different activities that can help us I guess rebrand through renaming the property and obviously putting money into it.

So that looks a lot nicer so we can possibly attract a different tenant profile. I think that is helping me where I have different aspects of the business that I need to oversee but I have people in place that can help me do that in a way that I wouldn't be able to do myself alone.

[0:27:42.3] WS: So, what is the number one thing that's contributed to your success?

[0:27:45.3] JH: I think being creative and always trying to find a solution to a problem has allowed me to do far more deals than what most people would probably had done with the same opportunities. I love real estate. I love putting deals together and sometimes things just don't seem to be matching up. But when you are motivated to make a deal happen, I think that you can find opportunities to make something work when maybe others wouldn't.

And an example of that, agency financing is a superior financing method that it is non-recourse which means there is no personal guarantee that allows for interest only upfront to financing. So that may be the in-place cash flow doesn't make sense to most who were vetting the project through a community credit union or a bigger bank. But with my financing, I am getting a 3% interest only loan and they are looking at it with a 5% 25-year amortization and it significantly changes look their net cash flow is versus what mine would be. That's one that's pretty easy, just getting better financing.

And then other opportunities of what is the highest and best use of this property that the current management team or landlord is not using that immediately that we could change and improve on? And so, it is looking for a way to make a project better and not giving up. Sometimes you have to walk away from a deal. But there are times where a deal doesn't make sense initially but there is some hidden gems and profit centers that maybe some won't take the time to find or maybe don't know it is there that helps us take a project on and know that we can make it a success out of it.

[0:29:38.3] WS: Great answer, I appreciate that and you have to be creative. If you are an entrepreneur, you have to be creative especially now.

[0:29:44.5] JH: In so many ways.

[0:29:46.0] WS: Yes, well I appreciate you sharing that, Jason and how do you like to give back?

[0:29:49.7] JH: You know, I am glad you bought that up Whitney. Something that is pretty exciting that's new to 2020 is we just started a non-profit. And so we, my wife has been doing less in the real estate world and more with the non-profit and charity and so Kid Well Foundation is a foundation that we just started and part of it is for scholarship, the money that we are going to do in the name are in honor of my grandma and granddad.

But there's also going to be some aspects of teaching children and those who are underserved ways for them to get help both from food but also just mindset and education programs that we are trying to implement with our local communities. So, that is one thing that we are trying to do a good job by our investors, hopefully make them some good returns and ask if they'd be willing to take a little sliver of the profits and put to work in a good way. And so, that is kind of where our efforts are right now.

[0:30:44.0] WS: Wow, thanks for sharing that. I appreciate you all thinking about giving back in that way and creating that method for investors as well and I appreciate you just being on the show, Jason. You've been extremely knowledgeable obviously and you have done a great job just sharing with us today and sharing about this opportunity and how you work with your investor and the financing and negotiating and finding the deal. I am very grateful for your time. Tell the listeners how they can get in touch with you and learn more about you.

[0:31:09.7] JH: Thanks Whitney, I appreciate you having me. Our office number is 801-900-6889 and the best email would be lisa@harrisinvestmentgroup.com our website obviously, Harris Investment Group or Creative Gains, getcreativegains.com, either one of those would be fine too.

[END OF INTERVIEW]

[0:31:32.1] 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 are 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]

[0:32:12.3] 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.

[END]