EPISODE 749

[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 your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Jim Pfeifer. Thanks for being on the show Jim.

[0:00:33.0] JP: Thanks for having me Whitney, happy to be here.

[0:00:34.9] WS: Jim is one of the founders of Left Field Investors, a group dedicated to educating and assisting like minded investors negotiate the nuances of the passive investing landscape and the world of syndications. Jim is a formal financial advisor who became frustrated with the 'one-path-fits-all' approach of the standard financial services industry.

Jim now concentrates on investing on real estate assets that produce cash flow and is committed to sharing his knowledge with others who are interested in learning a different way to grow wealth. Jim, thank you again for your time. You know, I've known you for a while, grateful to have you on the show. Get us started a little bit of your background — I know you had a financial advisory background. But then — was that real estate? Did you do any real estate then, what got you into real estate, give us a little more context there.

[0:01:27.4] JP: Yeah, thank you. I started in real estate accidentally. But I'm kind of on career number four, I would say. I was in business for a while, I was a teacher for a while, I was a financial advisor for a while. And now I'm just an independent guy, investing in passive

syndications. When I started, I called it an 'accidental landlord,' you know, we sold — or we bought a new house in 2008 and we couldn't sell our old one. So we rented it. And we did that for about five years and I was a property manager and I did not like it.

I went to sell that house because I didn't like having to go over Christmas eve to fix a toilet, which did happen. And my realtor said, "Hey, why don't you let me manage it for you?" And so I said okay, and he did. And then he convinced me to buy two more properties. And I did and I still own those properties and they're making money. That kind of got me into real estate. And so I was the guy with shiny object syndrome.

I went and bought turnkey investments. I bought a 22-unit multi-family building; we did a flip — and I joke because that flip made us hundreds of dollars. If you know about flipping, you should make much more than that. I was all over the place until I kind of found syndications when I was at a seminar. Because I thought I wanted to be a syndicator. I went to the seminar and I learned, no, I want to be the passive, I want to invest in other people's syndications. So I did. And I started out kind of investing my self-directed 401(k) in a bunch of different syndications that gave me a lot of lessons about what I don't want to do.

And over the past two years, I've learned and I focused and now I know the kind of syndications I want to be in. And so now I'm kind of much more focused in on the right path, I think.

[0:03:08.4] WS: Nice. It's just interesting to hear how people get to the syndication business for sure, you know, if you say syndication to somebody new about investing, I mean, it's like, there's no clue what that is and puts up this big wall a lot of times but you know, you dove in there, you learned about syndication, learned you wanted to be a passive.

Jim, let's dive in a little bit. How do you help — let's first say, how did you navigate the waters of those learning syndication? You said you invested with your IRA first, you learned a lot of what not to do. What were some of those things? Now you know, you've been more successful investing?

[0:03:43.1] JP: Originally, I don't want to get too technical, but I had a self-directed IRA which doesn't really make sense to invest in leveraged investments in an IRA. Because you'll pay the

UBIT tax, which is a tax inside your IRA. When I first got it, I had a bunch of money in a roll over and I was super excited to get started so basically, everybody I meet at the syndication seminar I'm like, I'll invest in your deal, I'll invest in your deal.

I wasn't really looking at the deals, I was just trying to get started. While that's not the best strategy, I also think it's a good strategy sometimes to just take a chance, try something out and see if it works. That's what I did. The investments aren't horrible investments, they're just investments that aren't paying out like they should, or on time that they should. And unfortunate, because that's in my retirement account. That they're playing out slower than I thought and it doesn't really matter.

But now, I'm focused on real assets that produce net income for me and that's what I'm living off of, so my strategy there has changed for sure.

[0:04:46.4] WS: Okay, well you know, tell me though, are you still focused on using your IRA or are you more not too focused on using your IRA, anything specifically that you could recommend about that process before we move on?

[0:05:00.2] JP: Yeah, so I converted my IRA to what I guess an EQRP or self-directed 401(k). And that, for some reason, the tax code, you're allowed to have leveraged investments in that but you still lose out on depreciation and other tax advantages of syndication. Right now, in my self-directed qualified account, I'm only doing private lending or any kind of debt structures that don't have these tax advantages that you do have in the other non-qualified accounts.

[0:05:32.5] WS: Let's hold off right there just for a minute. EQRP, it's something that's kind of — maybe it's not new, I don't know. But it's new, kind of being known in the industry. I feel like, to a lot of people, or that you hear that term and it's like, "What in the world is that?" What would you advise now to the investor listening that's saying, "Wait a minute Jim, I've thought about using a EQRP but I just don't know if that's what I need to do or not."

[0:05:54.7] JP: Yeah, I would say that if you have a roll over or 401(k) that you can put under your own control, I don't think it matters if you do a self-directed IRA or an EQRP, if you're just going to invest in — or you're just going to do private lending or debt instruments. Things like

that. Because that's what I think belongs in your retirement accounts rather than the syndications that give you all these tax benefits.

I would say, it doesn't really matter which one you do but you get the money in your control, you can still invest it however you want in the market or in real estate or whatever. If you really want to get into syndications, and the only thing you have is your 401(k), then I would definitely recommend the EQRP or solo 401(k). Because those get you around the UBIT — and I would say it's better to have some real estate than none.

I would still be okay knowing that I'm going to miss out on appreciations on some of the other tax benefits but at least I don't have the UBIT in the solo 401(k).

[0:06:55.8] WS: You would say, definitely transition to an EQRP if we have a 401(k) or something like that. We have that checkbook control but maybe use it for something other than syndications, like hard money or something like that.

[0:07:08.4] JP: Yeah, there's actually syndications you can do that are just lending, that are just dead. So I would find some of those or, I run a couple of local real estate meetups. And there's plenty of flippers and buy-and-hold people who I learned, once I get to where I know, like, and trust you, then I can loan money to you. I do that for individual loans to people as well. And I do all of that through my retirement accounts because there's no tax benefit to doing it elsewhere.

[0:07:36.7] WS: Give us a couple of details on how you document something like that. You're just handling that capital properly.

[0:07:42.9] JP: Well, you know, the first time I did it, I just took the other guy's wording and just signed the document. It was somebody I trusted so I don't have any regrets. But I just didn't want to spend lawyer fees. But now, on the new deal I did, also with somebody that I trust very much. I decided I need to either — I need to get real documents that are vetted by my attorney.

Either I pay for them, or in this case, I ask the lender, or the guy I was lending the money to, I said, "Part of this deal is you're going to have to pay for my attorney to do the documents." And he was fine with that. But even if he said no, I would have spent the few hundred dollars it takes

to have someone go through and check the documents. I didn't do that for the first few deals but it's money well spent.

I haven't had any problems but I will always spend a couple of hundred dollars that I've avoided all this time to get the right documents.

[0:08:33.0] WS: Changing gears just a little bit Jim, you know, since you're helping many other investors now, you know, just open their eyes to the syndication business. How would you say or what's the hardest part of teaching them, what the syndication business is? How do you expose them to that and share great things about this model?

[0:08:53.5] JP: That's a great question, you know? I have a couple of different groups, one is the beginner group and they're people who are friends or even a couple of former advising clients who have always told me, "Hey, you know, I hear you're on real estate, I'd love to get into real estate. They just might not have the capital to do deals on their own.

With that group, we're just starting from scratch, educating all the way through. And we actually, in that group, through a company called Tribevest where we invest our money together. We just invested in our first deal, our first syndication. There's 11 people in the group, none of them had ever done one before.

We walked through it step-by-step, we talked to some different syndicators through — Zoom has been a blessing, in that sense. We just went step by step and educated people on crowdfunding, syndications, the tax structure, and everything. And went into the process. There's another group of people that are interested and know about syndications but you know, might be able to invest on their own because they have a little bit more capital. That group is a little more advanced group so we kind of just talked to each other and I thought I would have all this knowledge to give and share with people. But I find that even when I'm talking to someone brand new, I learned something every single time.

The act of sharing my — what I call my syndication knowledge or experience or whatever you want to call, it's just been given back to me tenfold by talking to people that have a different

perspective. Or don't really know about syndications. And I learned something every time so I'm really surprised that that happened and grateful for it.

[0:10:21.3] WS: You know, Jim, before we started recording, you had mentioned. Like helping others and yourself just understand, like, real assets producing actual income versus paper speculation. I just wondered if you would highlight on that a little bit and let's dive in there for a minute.

[0:10:36.4] JP: Yeah, certainly, I mean, I was a financial advisor, we were all in the stock market or other products. And it was always these paper products that, you know, at some point you're going to have to find somebody else to sell them to so you can make money.

Now, there are some that, you know, you can collect dividends off some stocks, so there is that. But I'm a strong believer now in acquiring assets that provide you cash flow. Because then you'll never have to worry about, you know, you can quit your W2 when you get enough. You can have retirement, all of this stuff because these assets produce this cashflow while also, if you're patient and on the back end, they also produce appreciation.

But I never factored that in to when I'm investing. I always thinking, "Okay, I'm just looking for the cash flow," because this is what I'm — this is how I'm paying for my lifestyle and my family and all that stuff. I want assets that produce regular cash flow. That's my main focus. Now, there may be a time when there are some — I'm focused on appreciation a little bit but my main focus is, I want an asset that's going to produce cash. That's everything I'm doing right now is focused on that.

[0:11:38.3] WS: What about how you start to vet an operator? Or let's just talk about the operator a little bit. I feel like the operator comes first before the deal. How do you — and your group look in an operator and determine, "Okay, this is somebody we can trust that we want to move forward with.

[0:11:53.5] JP: Yeah, absolutely, operator is the most important thing. And, as you know, I interviewed you as an operator a few months ago. And we haven't been able to get a deal yet but I'm looking forward to the time that we do. But the operator is the main thing for me. We've

developed through some of the books we've read and just talking to each other, we've developed, I don't know if it's a questionnaire. But just things to ask the operator when you interview them. And normally, the interview lasts a half-hour, maybe it will go on for an hour. And usually, most of those questions are answered by the sponsor saying, "Here's kind of how we operate."

And then, my thing is, I just start asking questions that they haven't answered. And kind of get them into a dialogue and that's how I get them. Now, you can never know for sure. I also ask for referrals from others, you know, "Who do you know that I know?" So you can kind of get the trust because the bottom line is, when you invest in one of these deals, it's the least liquid investment you'll probably ever make because there's no getting out of it.

The syndicators are in complete control, you put your 25 or 50 grand in there. And now you just hope for the best and you won't know if it's a good deal for three to five years, right? You'll see along the way, okay, "Are they paying when they say they're going to pay? Are they sending reports like they say they're going to send?" You can tell a little bit but you're stuck in it.

Vetting the operator is the absolutely most important thing and our questionnaire, I think, does a pretty good job of it.

[0:13:17.7] WS: Anything about the deal that you know, you're looking for, what's your favorite type of asset class, you know, or business model?

[0:13:26.9] JP: Okay, most people are doing multi-family, mobile homes, self-storage, right? Those are the three big ones. And those are the ones that I'm in also. Mostly multi-family, I also have from a company that I do triple net industrial lease back. Which is basically, they buy a property from the property owner of an industrial place and they lease it back to them. And so I really like those deals. But we develop the spreadsheet, again, from our book reading and other things that, at least for the multi-family, we haven't really gotten there on the other asset classes very well yet. But it has the top 20 metrics that we look at for each deal. And so we plug in the information from the deal sponsor that they give us.

And we just see and this basically a spreadsheet turns green if it hits the metric, red if it doesn't. And red doesn't mean, "Don't invest." Red means, ask a question. Like, if someone is saying the IRR is 25% — that is awesome but it is also going to turn red on our spreadsheet because that is higher than I would expect. So ask the question, "Why is your IRR so high?" It is the same if they send me one with the 5% IRR, "Why is your IRR so low?"

So this is — we are just starting out with this but this analyzer, the deal metrics, it won't necessarily tell me, "Is one deal better than the next?" It basically just says, "This deal hits most of the metrics." Now it asks the questions I need to ask and I am comfortable investing in it. And so we have used it over the last, I don't know, two months. And it just helps give you some confidence because in the past, to be honest, and I have talked to other syndicators who are the same, they don't really have a way to analyze a deal.

Because you are — the passive don't. You, as a syndicator of the deal, you do all of the underwriting. And you dig into it but I don't want to do that in much depth. I want to have a screen where I can look at it and say "I found an operator I trust. I know he's got good deals, now how does this deal fit?" Boom-boom-boom, meets all the metrics all right. Let's go forward. That is kind of my approach. You really got to screen the operator and then the deal is just — "Is it in the ballpark?"

[0:15:34.4] WS: For sure, I know I think the operator definitely comes first. I couldn't agree with you more. I love that sheet that you are talking about, though. I feel like, for a passive investor especially, if they are newer to investing — especially in the real estate or in the syndications. That is going to give them just a great place to develop more questions while they are interviewing an operator. Or talking about how they do deals and things like that and that is awesome. Jim, what's been the hardest part of this syndication journey for you as a passive investor?

[0:16:03.2] JP: I think finding my focus was part of it. Single family, multi-family, flipping, syndications that weren't quite right. So now I've found my focus and I found a group of people who are also interested in learning and growing together. So, you know, there will be other things that are difficult but so far I find that I am really passionate about real estate. And it took me a while to figure out, "Okay, where is the best fit for me at my stage?"

I don't want to be managing syndications or flipping houses. I want to get a small group of syndicators that I know, like, and trust and then just roll with them for the next 10 years that's my goal.

[0:16:44.0] WS: How do you want to hear operators preparing for a downturn? So if you ask them, "Mr. Operator, how are you prepared for a potential downturn?" What do you want to hear that operator say?

[0:16:54.8] JP: You know that is a really good question. I think what I want to hear them say is, "You know we have — we have built-in redundancies into our models." And mostly, I mean, a lot of syndicators now are trying to — it is almost like flipping, right? You are trying to get out of the deal in 18 months, three months, three years. Trying to refinance or sell the deal to the next guy. So, with that being the model that most people are after, I would want to know does this deal cash flow.

And if you can't sell it and if you can refinance it, will the deal still be good? And if so, then you are fine. And I think that is the key is, if you are underwriting and investing for cash flow rather than appreciation, then during the downturn it doesn't really matter if the value of your property drops because you are still getting the income. Now your income will drop a little bit as well, right? Because tenants might not be able to afford as much and all of that.

But the key is that you are still going to be above breakeven occupancy if you have done the right underwriting. So I look at breakeven occupancy. And just to make sure they have a plan anticipating the downturn. If they say, "Oh no, everything is going to be fine forever," well, then I am done talking to them and I am not investing in their deal. So I don't have to really analyze it. If you're talking with the right people that question it can come up but I am going to have confidence that they are going to answer it in the right way.

[0:18:14.0] WS: So Jim, I believe anyone that is successful in business has a high level of self-discipline. How did you gain a high level of self-discipline?

[0:18:22.4] JP: Oh wow well, you know, like I said, I was chasing shiny objects. I think a lot of people in real estate have that and what has really allowed me to focus, I think, is trying to help others. And trying to build the community so that other people hold me accountable. You know now, if I do a deal that just doesn't feel right, I have people to talk to. And in the past, that would have been like, "It just doesn't feel right but I have this money, I got to invest it. I might as well just do it."

Well, now I have a group to talk to and that can kind of steer me and help me maybe avoid some of those just leaps that I maybe shouldn't make.

[0:18:59.0] WS: What are a couple of daily habits that you have that you are disciplined about that have helped you achieve success?

[0:19:05.5] JP: I think it is just — you know there are a lot of deals coming across my desk nowadays. So I try to look at a couple of deals every day and kind of put them to the analyzer. And I just try to maintain focus on what I'm doing because now I work for myself. You know, I can take a week off and no one would miss me. So I have to stay focused on every day getting up and doing those tasks to make sure that I am driving my business forward.

That I am taking the cash that I am earning from these investments and figuring out how to put it into the next one. So I don't know that I have specific daily tasks that drive me forward. And I just have a goal and that goal is, right now, I am using a lot of different syndicators. I am testing out a lot of different people. And in two to three years, my hope is to have three to five syndicators and instead of just putting it in a minimum, I can put in larger amounts and have more freedom of time.

That is the whole purpose that people are working for themselves or being a passive investor for freedom of time. So that is what I want. So now everything I do, day to day, is geared towards — "How do I get to my goal in two to three years of being able to be a passive investor who works a couple of days a week rather than five days a week?" You know, I still will be interested in it. I would still be doing it because I like it and because I am building wealth for my family.

But I want to be to the point where I don't have to be sitting in my office every day. And that is kind of, every task drives me towards that.

[0:20:29.4] WS: No, I love that plan as a passive investor, I've heard numerous — our passive investors kind of go through that same process. Maybe they invested the minimum on a first deal or two where there is a couple of years ago. But then now, they will invest a lot more. And you know, I have heard that same thing where you want to spend less time managing all of that right? Now that they have done a lot of vetting in different ways. So Jim. what is a way that you have recently improved your business that we could apply to our business?

[0:20:54.4] JP: That's a good question. I think the thing that I have been doing lately is using Upwork to find VAs, virtual assistants to handle things that I am not good at, right? So we started a website for Left Field Investors. We needed logos. Five, 10 years ago I would have sat down and tried to figure out how to do WordPress. And I used to do that, actually, every once in a while. If I need a website, I try to do it myself and right now I am paying someone else to do it.

And there are affordable high quality people that you can get through Upwork or Fiverr that can do these things for you. So you got to spend money on things that aren't your strengths so that you can focus on what you are passionate about. And that's kind of how I really improve my business because I am not getting down into the details on that on someone else's spending their time on that and I am just paying them for it.

[0:21:42.8] WS: What is your best source for meeting new investors?

[0:21:46.8] JP: I think it is just referral based. I have this — we started this meet-up in Columbus, Ohio that we got — it started from four people to 12 people. And now, I mean, pre-COVID, we have 60 to 80 people come to our meetings. Out of that I — that was more for people that were flipping and buying and holding. That is what I wanted to do then and so I spun Left Field Investors out of that. People that I met there that were interested in syndications and passive investing.

I said, "Hey, you want to come along?" And pretty soon, when you build a quality group of people that are like-minded individuals, they talk to a buddy and pretty soon that group grows.

Now we are just starting out so I have no idea what we are going to do, what it is going to look like or how big we're going to get or how big we want to get. But right now, we are slowly adding a couple of people here and there who are interested, like we are.

And we are just going to go with it and see what it turns out to be. That is the same thing that I do with my last group that like I said, we have over 500 people on our email list now. So it just kept growing. That is kind of my approach to this is, I don't have everything figured out but I am just going to keep plowing forward.

[0:22:51.6] WS: What's the number one thing that's contributed to your success?

[0:22:55.3] JP: I would say the willingness to take chances and go against convention. And building a network of people that, like I said, know, like, and trust. That is one of the big mantras of this business. And that is key to me and then learning from people with more experience than I have but also being open to learning from people with less experience. And that is where I think I've really grown over the last couple of months. I started a couple of these groups thinking:

"Hey, none of these other people have much experience in passive investing so I am going to be sharing all of my knowledge," and what happened was I shared all of my knowledge and I got a bunch back. And so that has really helped me a lot. People are told, "Hey, get a job, put money in your 401(k), retire," right? Well there are other ways to do things. If you get into real estate early enough, you could retire and just have passive income coming for the rest of your life.

And so I am really passionate about that. And so I think going against Wall Street convention is one of the main things that's contributed to my success of late. It's just a breakout of the financial adviser world and dive into this where I can do what I want, make the money I want, and have real assets again producing real cash flow.

[0:24:07.9] WS: Jim, how do you like to give back?

[0:24:09.5] JP: That's again what we have talked about is the thing I am doing mostly is trying to build a community that helps bring others along and educates and exposes people to alternate investments. You know, they call them alternative investments, it drives me crazy. It is the house you live in, the apartment you rent, the self-storage facility you put your stuff in, how is that alternative? I don't know but it is. And so helping others build wealth but with real assets.

Helping people learn how to invest in syndications and then investing alongside of them. Or just helping them get started on their own. That is what I am passionate about and that's — a couple of groups I have started. That is why I want to grow those and expose more people to this because as soon as they learn about it and they think, "Oh wow, this isn't that hard. You know I can do it on my own." So that is what I want to do, build a community that helps others get exposed to these kinds of things.

[0:24:59.3] WS: Jim, I am grateful for your time today. It's been a great show. You have covered just how you got into the business by accident, you mentioned doing some self-managing, which you hated. And had some shiny object syndrome, which I am sure we are all guilty of at one time or another but you found syndications and you started educating yourself.

And then even educating us on how you have used your IRA or the EQRP and some of those tools to be able to invest with your 401(k). And even outside of, you know, syndication specifically or is the tax — the loss of the tax advantages. I am just grateful for your time and then just how you vet an operator or look at a deal and the questions to ask. Thank you again, tell the listeners how they can get in touch with you and learn about your community.

[0:25:43.3] JP: The best way is by email at jim@leftfieldinvestors.com. And you can also go to our website but all it says is 'coming soon.' So by the time this airs hopefully we'll have some content on there but as of now the best way is just that email, jim@leftfieldinvestors.com.

[0:26:01.5] WS: Awesome, that's a wrap Jim. Thank you so much.

[0:26:04.8] JP: Awesome, thank you. I appreciate it.

[END OF INTERVIEW]

[0:26:06.9] 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]

[0:26:47.6] 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]