EPISODE 757

[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]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Jim Sheils. Thanks for being on the show this morning Jim.

[0:00:32.8] JS: Thanks for having me Whitney, good to be here.

[0:00:34.3] WS: The playgrounds of New Jersey might not seem like the ideal breeding ground for a lifetime of successful real estate investing but this perception doesn't bother Jax founder, Jim Sheils. In his 20 plus years of practice, Jim has accomplished much. He's purchased nearly 1,000 properties with the value of over 200 million dollars in 20 years, helped hundreds of investors earn steady and impressive returns, coauthored two books about investing in real estate, spoken on stages around the world and taught more than 20,000 real estate investors. Jim, thank you again for your time this morning, welcome to the show, I look forward to just hearing more about you know, your real estate business, how you all operate a little bit and let's dive into some specifics that are your super power that can help the listeners as well.

Get us started with just you know, what you're doing a little bit, maybe a little bit about your story, getting into real estate and just how you all function right now?

[0:01:26.9] JS: I got into real estate out in California in the late 90s into a little town called Bakersfield, California and it was a great place to start because we were able to buy homes for

40, 50, 60,000, a lot less zeroes to deal with, which was nice, did a bulk of HUD foreclosures which are government foreclosures, then wanted to go for a stronger fundamentals and move to Florida before the meltdown.

Went very heavily into bulk foreclosures post 2008. Did well with that and then seeing the changes that occurred with just not a lot of properties available anymore but couldn't do volume, we started to do build-to-rent, I teamed up with a building partner that I'm now a general partner in the our land acquisition funds where we will take tracts of land in high growth areas, develop them, sell some of them to national builders, keep some of them for our build to rent model and we have a lot of investors looking to own investment property in the areas that we're building and they like the idea of new construction for less headaches, less maintenance and repairs and a better overall trajectory for the future.

That's my main focus now is the build-to-rent model and doing the scale of it.

[0:02:33.8] WS: Nice, well, just to ensure the listeners and myself understand that model. But ultimately, you're purchasing large tracts of land, you mentioned in a high growth area. Then you're developing single family homes, you know, I guess large developments in that area or on that tract of land and you're selling those or renting them personally or selling them to investors to rent.

[0:02:52.9] JS: Yeah, we do single family, duplex and quads, we're staying with residential real estate but you know, the eyes and ears that I found a lot of investors are looking for duplex and quads which can produce, still get you a residential loan, still the residential property but it gets a little higher cashflow yield.

We build a combination of them and we go to high growth areas, Florida's our main market, we've gone into Georgia and probably Tennessee soon. But I always look for population growth, economic growth, affordability, desirability and healthy supply and demand. Obviously we want that healthy supply and demand because if we're building property.

We'll do a mixture of spot lots, they're called. But also you know, tracts of land which those can take about two years to get developed and ready to go so it's a slower process that I was used to being in rehab where you can be in and out of a property in 90 days, these can be two years, luckily again, I'm sure we'll talk about that. I couldn't do this on my own, I teamed up with a very good building partner and I'm now a general partner with them and it was absolutely key to have those team members to do this because I don't have all the details to be able to do this whole model on my own.

[0:03:58.5] WS: Yeah, we'll get into that in just a second, I wanted to ask you though, those details that you listed off there that you're looking for, where do you find some of that data, just ensure you know, you're in that high growth market and population growth, all those things?

[0:04:10.4] JS: You know, you can find them in lots of different ways, one of the ways like, one of our main markets now is southwest Florida and the municipalities down there released a report about needed housing and this report released by the municipality showed they were three years behind today on needed rental properties.

Sometimes it's the municipality, sometimes it's different economic groups, I'm a big fan of ITR Economics, they're out of Texas, so I have different sources that I'll pull from, also, really just really our core started in Jacksonville and me and my building partner knew the market very well. That's where we were entrenched, that's where we focused, so really, our own outlets of data just from MLS or just desirability of where people want to rent.

It was kind of our own experience and then we also went to bigger sources as well.

[0:04:58.8] WS: Nice, well, let's talk about the team just a little bit there. Tell me about how that happened, you know, you mentioned you couldn't do this on your own, most syndication businesses, we could not do it on our own, it is a team sport. What were the things that you were looking for in that team member, I'm sure you probably have complementary skills but what made that an ideal partnership to push this business forward.

[0:05:19.0] JS: Yeah, we kind of complement each other, my building partner now, he has a great background in the larger land acquisition to ending building. I have a great combination of having a large net of investors that I work with that want this property that we build, we kind of meshed our talents together and also, we both had really good relationships working with investors.

Obviously, when we're – we have a current income fund right now, you want to be able to work really well with investors and tag team that to get everything setup properly, to handle them properly, to cater to them properly so that's just a few other things that we did do kind of complement each other.

[0:05:58.5] WS: Nice. You have a fund on the front end to be able to purchase the land, build the homes, you know, investors are investing in that fund and then other investors are actually purchasing these properties individually, is that right?

[0:06:11.4] JS: That's correct, we do an income fund right now, we have an income fund, our next one opening next week and that's for credit investors who want to come in, it's paid current, it's an income fund so it's a true income fund and they're sharing the profits for everything the fund invests into and our model's very simple, we acquire again, some spot lots and tracts of land and finished lots that maybe a developer didn't finish the last 20 in the community, and then we used that to either sometimes prepare them and sell them off to larger national home builders, other times, we'll build them for our own model. Those people invest in the front end for that acquisition phase and then people in the back end are looking to build portfolios.

We work with a lot of professionals that are looking to own a small portfolio of rentals and they want to be in high growth areas but they're not set up to do it, nor do they have the time and we kind of cater to them.

[0:07:00.4] WS: Could you speak to just some of the basics of how to operate a fund like that or things that maybe the listener wouldn't know about operating a fund. I know it's becoming a more popular model, a lot of people are starting funds now, but I wonder, just from your experience, could you just help us better understand how to properly operate something like that?

[0:07:18.9] JS: Yeah, sure, the funds, honestly and again, that was an expertise of my building partner and what I learned about the fund is, it is a lot of paper work and when you are offering a fund, first of all, you have to get clear on what a credit investor is, you have to get clear on the paper work, because when you're filing with the SCC, you want to be very, within the lines, always.

What I always encourage people are is make sure you study into one before you just say, "I'm going to launch one", because there is a lot of steps to it, not that it's not doable, not that you can't do it but there are a lot of steps and there is legal funds normally required to do it the right way. What I would encourage is, especially if you're just starting out, I would try to leverage off someone who's already done it which is exactly what I did, I teamed up, became a general partner on someone who had already been doing it and that made all the sense in the world.

One thing you're definitely going to need is a good attorney to help write this or someone who's already been there, done that, maybe is in your state and might share some paper work with you. But you're going to definitely need to dot your I's and cross your T's because when you're offering a fund to a credit investors, you have to be very prudent and very within the lines to do it the right way.

[0:08:32.5] WS: Very proved, yes, because I mean, ultimately, especially a development model like this, if you don't have that track record, it's almost like a blind fund in a sense, your investors know what they're investing in but however the building's not there yet, it's not producing cash flow or they can't go see it yet, right? So they're going to have to know you and you know, could you answer the question though of starting a fund like that, would you say the majority of those investors that would invest in that have invested with you numerous times or have known you for a long time or they come in and just see a track record, what does that typically look like?

[0:09:03.7] JS: Yeah, track records are obviously the tenth fund is going to be easier than the first fund because you're still proving yourself, you're still proving concept. But this is where I think it's extra important where people start small and they take really good care about their investors. Communicate, communicate, communicate, keep them informed, let them know what's working on, have all of that on at least a monthly basis and have your phone available for questions.

Because that's how you're going to go into, start with a few investors that come in and they will grow and hopefully tell friends. The power of treating people right and getting referrals is absolutely key. I believe, if you want to be able to leverage and grow it and it's going to come off of your reputation or whoever you're partnering with, within the fund.

[0:09:49.3] WS: Can you elaborate on maybe even the communication a little bit and the things that you are communicating or the way you're handling and taking care of investors really to set you apart from other operators or developers?

[0:10:01.7] JS: Yeah, we like to do at least a monthly update where we're saying, hey, here's - and it's very simple, we do a sit down with me and my building partner and we'll say here is the monthly update, here's our this month's production of how many properties were built or how many were sold so we give kind of a status of where we're at.

Also usually normally hit on a big issue like right now, big issue where people were asking, "Hey, do you have fun, do you have enough deals flow to be able to continue to do this?" We're going to go over that and then we just talk about some logistics of this next fund. We do a monthly update, a very simple thing of, "Here is where we were last month, here's where we're heading this month, here's a big question, a lot of people have been asking, here's some updates on the active fund itself."

Just that kind of communication is key and also, I think letting people know where you're going, we have a very hedgehog concept, we haven't changed our model, people like that, they understand it so I make sure people understand the simplicity of our model and that we're staying to it.

They know what we're going to be doing with the funds, they understand it, they've seen it. But we can constantly reiterate that, that we're staying within our niche, it's working and we're going to go deeper into it.

[0:11:15.5] WS: What's a typical life cycle of a fund like that and how does it work and how long is it open or when does it close?

[0:11:21.8] JS: We do five years. Five years is that and normally you'll leave it open to have fill it for about a year but it's a five year fund.

[0:11:30.3] WS: Okay, for a year's time, investors can invest for a year and then the fund will operate for a year and then would close. When it closes, does that mean that like those acquisitions have been sold?

[0:11:41.4] JS: By the fifth year, yeah, everything will have been sold and you'll have participated in the profit and all principles returned. And it stays open for up to a year but also if it fills in four months then we're going to obviously close it. We'll leave it open to up to a year but close it as soon as it funds. That could fund, some funds fill quicker than others.

[0:12:02.4] WS: Okay, there's a certain amount you're trying to reach, is that, when you would close that?

[0:12:08.2] JS: Yeah, we set a clear number of what we're trying to reach, have minimum amounts, they have to be accredited so you want to make sure that you get all your people to go through, you know, there's different accreditation verification services or letters from CPA, you know, for what we work in, you do have to be accredited and always want to make sure that you have absolute concrete proof that they are accredited.

[0:12:29.5] WS: Jim, what's been the hardest part of this syndication process or business for you up to this point?

[0:12:36.8] JS: For me, it's the amount of setup and the amount of paperwork and to do it the right way, there's a lot of more steps, a lot more involvement, a lot more legal paperwork, you know where I always did bulk foreclosures. So I was hitting the ball a lot but singles or doubles and that was an easier smaller process. This includes a couple of different things. I wasn't doing a fund like this, we were doing just individual deals in bulk. So it was just a difference in the set up and the organization really stretched me.

And again, that is why I am lucky to have a good partner because it was like drinking out of a fire hydrant, an open fire hydrant at first but I really leveraged off the expertise of who I teamed up with.

[0:13:20.3] WS: And how do you prepare for a potential downturn when operating a fund like this?

[0:13:25.6] JS: Well, that's why I love our build-to-rent model. You know with paying a pref, you say, "How can we pay a pref?" Well, we know every land deal that we get into, I believe and this always comes back to the rental income, how things survive during ups and downs in real estate, well most of the time people have survived through '08, they were lowly leveraged and they had rental income that continued to come in even with rents dropping.

And we have it that we know that where we're getting in at, the pricing that we feel that if there were some downturns, if there is a slowing in the market and that we go back to rental yield, everything that we buy and go into is for that build-to-rent model and we know that we could hold and rent it and be able to cover our preferred returns and remember, that's without being in at our basis. So that gives us the power to do that.

[0:14:18.6] WS: And what do you personally see just happening in the next six to 12 months just in the real estate market?

[0:14:24.8] JS: Yeah, well the real estate market is a broad, broad market and we are really hyper focused on our niche. Low density, build-to-rent residential and again, we are going to areas that have been showing favoritism through this whole crazy pandemic. So we are feeling pretty good about it. We have seen a lot of people fleeing the stock market and other areas to go onto something that has a little more tangibility and sense and that has proved to work through COVID.

So for our niche of the market, we're feeling really good about it. We have a large population influx still coming to Florida. We are still in that affordability zone. People love the new construction and it just makes sense. So we are seeing and again, people smarter than me, economists have said our niche of the market will probably be one of the things pulling us out of this pandemic issue we've had instead of bringing us down. You know I have been in both sides in '08.

It wasn't the case for my niche in the market you know? But there will be some real estate people that they are suffering, you know higher density areas, larger retail commercial that obviously there's been some weird changes. So I think it will come back but I think there's going to be some pain.

[0:15:34.0] WS: Jim, you know I believe that anyone that's successful in business especially real estate has a high level of self-discipline and for you, how did you gain such a high level of self-discipline?

[0:15:44.7] JS: I think it was simply by breaking down the most important steps. So right now I know I need to for, if you want to talk about the fund, I know I need to talk to a certain amount of investors every week. I know that every month I need to have those updates ready and those are kind of the rhythms that, there's things inbetween, but I know keeping those solid that happens. You know, going back to my real bones, I know every Monday morning when I was doing bulk foreclosures, that I, on Monday morning the alarm went off, by Friday I would have two to three properties under contract that fit within my little parameters. That was it. I knew that was the most important thing between today and Friday, that's what I had to do. So I am pretty good at breaking down steps and sticking to them. You know keep beating the drum in that way. I know if I do this, this would be the result. That might seem simplistic but a lot of people overlook that.

And that along with partnering with the right people, you know there are things that I can do really well that my building partner couldn't and vice-versa and that has been absolutely key, teaming up with the right partners and team players.

[0:16:48.6] WS: Are there a couple of daily habits that you've been very disciplined about that's helped you achieve success?

[0:16:54.5] JS: Yeah, I have a daily huddle with my little key team every morning. That is absolutely key. Short call but we talk about a victory, we talk about what's on the day and any issues and support things we need to go through, right? So reuniting the team every morning, my main core team and them having access to me and vice-versa I think has increased our volume, it increased our effectiveness, our enjoyment. So that is a really important one that I was taught by a friend of mine from the Verne Harnish network that daily huddles are just absolutely the key.

[0:17:29.5] WS: That's interesting. I have been going through that, you know his book, Scaling Up, amongst some other ones. The daily huddle. So you find that that's very productive, is that typically like a five minute or 30 minute call and could you elaborate just a little bit?

[0:17:42.0] JS: You know Verne and his writing guy, Daniel Marcos has been a friend of mine for years. They, I believe, say that it should be a 10 to 15 minutes. I am going to say mine goes about 20, 25 and I know we can get it down but we just get some really good stuff done on there and it jumpstarts the day. It ties together the day before. It just keeps us in rhythm. So I go for at least 20 minutes and just the whole team when we have given feedback, we've done it a few years now, they say that one thing has united us, that one thing keeps us going strong. So that yeah, I can't recommend it enough. It's simple, everyone should be able to do it and it makes a huge difference to the rest of the day.

[0:18:20.2] WS: Who organizes that or who lays out the structure for that call or keeps it moving along?

[0:18:25.3] JS: That's me, you know and I am going to say it is the whole team too. We keep each other on track saying, "Okay, we got to get to this issue" and everyone pretty knows how it flows. We don't have as tightly regimented as probably Verne talks about but again Verne's the one, Verne and Daniel that talked to me directly and I have my own a little loosening of the flow of it but it works for our team. So we all hold each other accountable but I do have to be the one continuing to move it and make sure everyone feels heard and supported.

[0:18:54.6] WS: Jim, is there a way that you've recently improved your business that we could apply to ours?

[0:18:58.6] JS: Yes, I've said no. I've said no to a lot of stuff. I mean I did bulk foreclosure renovations for years. I refused to renovate a house again in this stage in my life and it was scary six years ago going into build-to-rent saying I am not renovating old homes anymore. This is going to be the new model and the focus and was there some steps back to move forward? Of course because it took longer, there was investment, it takes time to start to see but I had to start saying no to stuff.

Even stuff that had gotten me to a good level. So saying no has been really important. So I say no to a lot of stuff now. I don't get interested in deals I don't understand. I'm pretty again, that Jim Collins hedgehog. I am a hedgehog right now. Our groove is working. It has a trajectory, I am staying there.

[0:19:51.9] WS: What's your best source for meeting new investors right now?

[0:19:55.0] JS: I think it is just my relationships. It is my reputation. You know I have been in this almost full-time 22 years and I also do another business, family education business where I have spoken for the Verne Harnish Network actually on being strong in family life and in business. So that, which is more of a passion project, has brought a lot of real estate investors towards me by default. So really just my own network and my own relationships continue. When I treat them well then the introductions come. So really it is my own network that continues to feed me the best.

[0:20:29.3] WS: That's a great topic right there. You mentioned like being strong in your family and the business as well. Can you just speak to that and we just have a couple of minutes but could you just speak to the importance of that and how you have done that well?

[0:20:41.2] JS: Yeah, there is some really bad advice out there where people were saying you know, for entrepreneurship, you got to put your head down for five to 10 years and give it all the focus and then you know your family will understand you'll come back. That's terrible advice because the years are not all created equal. In fact the name of my family education company is called 18 Summers because I was told by a mentor, you know you will spend almost 85% of all time you ever had with your children by the end of their 18th summer because after that they move on and go away.

So if you have a family, you have to treat them with that. If you are already wired like an entrepreneur don't fight it but just remember your family is your most important investor, client and key team member and when we start to look at them like that and set rhythms around the home life, then you can have that success in business and success at home and that is absolutely key and so many people lose that. The problem is we have so much good advice out there of how to syndicate, how to market, how to do that but it is really hard for entrepreneurs to have a simple system to follow, to stay entrenched in home life and that is what I try to do for a lot of investors out there because it is important to us but sometimes we're afraid to ask, "How do we fix this?" And it is a very sensitive subject about family and I guess the one thing that I leave it with is, the thing I say on stage, I said it on Verne's stage before, the good news is there is no perfect family out there.

Whoever created that perfect family saying did such an injustice to family. There is no perfect family. It is about bridging imperfections and making the most of the time you have and I think when entrepreneurs take that pressure off themselves, then better things can start to happen at the home life as well.

[0:22:18.5] WS: I cannot agree more. I am so glad you brought that up. We can do a whole show on that probably and it wouldn't do it justice. It is so important that yeah, your family. If you gain all the wealth in the world but you lose your family, what good is it? And so Jim, what's the number one thing that's contributed to your success?

[0:22:35.0] JS: I think I've developed a good knack for building strong relationships and I have tried to keep things simple. Those would be the two.

[0:22:45.4] WS: And how do you like to give back?

[0:22:47.1] JS: Oh well, 18 Summers is one of my biggest give backs. I work with families to make sure that as they succeed in business, they succeed at home.

[0:22:55.3] WS: Jim, I am thankful for how you give back in that way. It is such a unique name and just give back is so important and I just appreciate how you have done that and how you are helping entrepreneurs to really think through the importance of family. I mean I have been guilty of that in the past as well just like you said, head down and let's just go and make it happen and all of a sudden you've missed two years of your family and your children growing up.

But just grateful for you bringing that up and just really going through this income fund and how you operate that, how investors can invest in the funds and also investors who are purchasing these properties from you all as you all develop them and just the life cycle of that fund and breaking it down or how you break everything down into simple steps and just that daily huddle. I am glad that came up as well. I have read about that and I think it is something my team and I need to implement as well.

So thank you again for your time today. Tell the listeners how they can get in touch with you and learn more about you.

[0:23:46.7] JS: Yeah, if you like to learn more about the real estate side, go to jim@jackswealthinvestments.com or you can visit me if you're interested in that family side and saying, "Yeah, I want a little more boost in the family life" just go to 18summers.com. You can download some free stuff in helping you to get a good start at that.

[0:24:04.6] WS: Awesome Jim, that's a wrap. Thank you so much.

[0:24:07.1] JS: You're welcome. Thanks for having me Whitney.

[END OF INTERVIEW]

[0:24:09.4] 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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