EPISODE 806

[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]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Reuben Goldbaum. Thanks for being on the show, Reuben.

[00:00:32] RG: Thank you, Whitney. Thank you for having me. It's a pleasure to be here.

[00:00:35] WS: Yeah. I'm really looking forward to this conversation. Your expertise is something so many worry about, like how do we get this done? How do we do it properly, especially in the syndication business? Looking forward to diving in. Reuben is the CEO at CG Commercial Realty, where he works to help real estate investors buy and sell commercial properties, specifically helping those in 1031 exchanges.

Prior to opening CG, he was responsible for sales and onboarding clients for Riverside 1031, a nationwide qualified intermediary. While there, he achieved a name for himself in the 1031 world by introducing buyers and sellers to each other and making the process much easier for commercial real estate owners. Minimizing the strain of the 1031 timelines was the most important job for him.

Reuben, thank you again for your time. It's such a good topic. I just want to dive in and I want to learn a little more about you and your background and 1031s. We've talked about 1031s often on the show, but not really always about how does that affect that investor? Or maybe how does that operator perform that 1031 from one deal to the next? How does that work with investors and those types of things? I'd love to talk about that. Give us a little more about your background, and who you are, and maybe just a high-level of what a 1031 is, just in case the listener hasn't heard of that before, but we won't spend too much time there before we dive in.

[00:01:55] RG: Again, thank you for having me, Whitney. I appreciate it. A 1031 exchange – Look, about me first. I started working in the real estate world about three and a half years ago. I never heard of the word 1031 exchange. I had no idea what it meant. I went into this company, Riverside. It's actually a title company. They also have a 1031 exchange company. The CEO was telling me a little bit about it and he's like, "Maybe you would be interested in joining part of that team." I did a lot of research and I felt that there was a lot of value to be given as a 1031 exchange intermediary.

What the 1031 exchange is, very high-level, you sell a property, you want to buy another property. You bought a property for 100 grand, now you held it for 10 years, now you're selling it for 500 grand. If you sell it and take the money into your pocket, you would have to pay capital gains taxes on the difference. $400,000, you'd have to pay capital gains taxes, which is give or take, about 30%. It's very, very significant obviously, especially on a deal like that.

What you can do is do a 1031 exchange, which means you exchange the proceeds of the sale, the original property, and you put it into the purchase of the next property, which is really cool. It's an amazing gift from the IRS for real estate investors to be able to avoid all capital gains. Now, the biggest issue that I found while I was working for Riverside 1031 is that 1031 exchanges have two timelines and these are very important. When a person sells their first property, they have 45 days to identify which property they plan on buying next.

45 days. If a person sells on January 1st, their closing date is January 1st. They have until, give or take, February 15th to identify which property. Also, they have 180 days from January 1st to actually close on said property that they identified. As you can imagine, this puts a tremendous strain on these investors. A guy's going to have 1031, he held the property for 10 years. He's not an active real estate investor, so he goes in and now he – oh, suddenly, he has 45 days to identify which property he plans on buying. That was by far, the number one concern for all 1031 investors that I worked with is what am I going to find to buy? What can I identify? How am

I going to do this? It's 45 days, a month and a half. It's ridiculous. How can I possibly move forward? That was very much my focus, to help investors make that easier for themselves.

[00:04:10] WS: Nice. It's a difficult process. The timing crunch, and I've seen it lead people into doing bad deals at times even, because they feel that crunch and they have to make a selection. All right, Reuben. I appreciate that and just you elaborating on that and just what it is. Let's focus on the syndicator a little bit that's fixing to exit a property.

Maybe it's a year before we're planning to exit, but we may have 100, 150 investors that are also in that deal that have invested in that property and we're going to say, "Okay. We're going to do a 1031 into the next property." Could you just elaborate on that process a little bit? How that affects the investors, and some things that the sponsor, the operator, and the passive investors should be thinking about through that process?

[00:04:55] RG: Yeah. Sure. It really can become a very complicated process. Typically, let's say, Whitney, you're buying a property, you have a 100 investors into your deal. Typically, the way you have it set up is that everybody invests directly into the LLC that you own the property in, so you own it in 123 LLC. When you sell the property, all the people that invested 50 grand, a 100 grand, 200 grand into your deal, they're passive investors. If you want to do a 1031, the taxpayer on the sale is actually 123 LLC. It's not any of those individual taxpayers. It's 123 LLC.

That's very simple. 123 LLC sells, 123 LLC needs to buy. You have 45 days to identify, a 180 days to close, the process we just discussed. It's very simple. However, what if one of your investors says, "Whitney, I want out. I don't want to go to the next one." What do you do then? Or what if they say, "I hate the next property that you're planning on buying. I want to go and buy my own little single-family not far from me." Or, what if you're not interested in going to the next property and you want to pay out everybody and many of them decide they want to do a 1031? Those are all very many ways in the syndication and exchange can get very messy, very complicated. The attorneys hate it. The sponsors hate it. It can get very complicated.

The way you would set it up is that you own it in what's called a TIC. TIC is T-I-C. It stands for Tenants In Common; a very common term that's used in my field. Tenants In Common. Let's say, me and you own a property, so we'll both be actual owners of the true real estate. The deed of the property will actually say, “50% Whitney, 50% Reuben,” and that will actually will be what it would say on the deed. If we want to sell and go to the next property, we can each go our separate ways, or we can go together to the next one.

In the syndication, however, you have a 100 investors, it can get very messy. Because if a guy is 50 grand, you don't want him to be able to tell you, “Whitney, change the deed. I want to be .05% of the property.” Each individual investor. It can get crazy; very messy. That's one of the challenges that I was striving to help people with, that I am striving to help people with in the 1031 field.

To knock down this crunch of this timeline and to make people feel that they don't need to be set up as a TIC, or even if they are set up in a multi-member LLC, that they have a property that they can confidently go into. You mentioned before that people in 1031 exchanges go into bad deals. Honestly, it's terrible. I think it's the worst thing. It's horrible, because brokers, agents, owners take advantage of 1031 investors all the time.

I have a friend of mine who's actually just put in a huge bid, a big deal in Delaware, 7.5 million bid in Delaware, and he was the highest bid. Three days before, calls for final offers, a 1031 investor came in at over a million dollars more than his highest bid, which was – it was crazy. It was going from a 8 cap to a 5 cap. It was absurd.

The reason is because they feel this crazy pressure, “I have to find something. I have to find it. I can't afford all the taxes that come along the capital gains, the depreciation recapture. I can't afford it. I need to find something.” It’s mind-boggling, because I’ve given presentations in broker's offices. They're like, “Oh, Reuben. You're a qualified intermediary. I have a deal perfect for 1031 exchange investors.” I always say, the words perfect for 1031 exchange investors means terrible deal.

[00:08:22] WS: That's good to know. Yeah, so elaborate a little bit on, is it something that, as an operator, as an owner, that has that deal with a 100 investors in it, should we pursue a 1031, and how do we approach the investors for that if there's three that don't want to invest, can we still do it? How do we make it happen? Or is it worth a hassle?

[00:08:42] RG: The answer is you can definitely make it happen. It costs a few dollars, it costs some money and attorney fees. I don't want to get very technical, because I know this is more of an overview, but you do something what's called the drop and swap. It means you drop people out of the current LLC into a Tenants In Common.

Right now, 123 LLC owns 100% of the property. Let's say, I'm a 5% investor in 123 LLC. You could drop me out of the LLC and the deed will now say, 123 LLC owns 95% and Reuben Goldbaum owns 5% of the property. It's a fairly simple process. You do a quick feed of that 5%. It's fairly simple. Costs a few dollars in attorney fees and in LLC filings, etc. To be honest, it's fairly simple.

Where it gets annoying is that the sponsor doesn't have time for the $50,000 investor. You're a passive investor. I'm deciding what to do with the money. I'm deciding where to go. You want out, I can't afford to have you dictate where I'm going. That could ruin relationships between the sponsor and the investor. The investor can get beyond obsessed. I've seen that myself many, many times. They want their money out. The exit strategy was to sell, not to go into another deal. They need to buy their daughter a car, or they need to pay for college, or anything that might come up. It can get messy. It can be done, to answer your question.

[00:09:57] WS: Okay. Ultimately, we need somebody like yourself that's helping us through that process, no doubt about it. What about that passive investor who is in those shoes, now instead of on the operator side, let's think about okay, if I'm a passive investor, the operator approaches me and says, "We have this option, a 1031." Is that something they should strongly consider, or maybe some red flags there to maybe they're not doing this process properly, or maybe some things you've seen done incorrectly?

[00:10:24] RG: Really, it depends on the sponsor and the relationship that the investor has with the sponsor. If they love the sponsor, then maybe they want to just go into the next deal. What's the downside? You don't have to pay the capital gains taxes. You trust the sponsor to still continue to give you your returns that you need. It's great. Continue. Go to the next one.

If the investor needs the money for whatever reason, the sponsor will usually give them an option to take their money and bounce. Where the sponsor won't work with the investor, at least in my experience, they will not work with them is if the investor would like to 1031, but they want to 1031 into a different deal. They want to do a Tenant In Common. In that case, unless the investor is a significant investor, I found that the sponsor won't work with them.

Another issue that the investor has to think about is that if you have any debt, if a passive investor is invested in a deal and there's any debt on the deal, so if you become a Tenant In Common, depending on the amount of money that you have in the deal, you can also then be underwritten into the actual mortgage. That can get very, very messy as well, because you're on the deed. You're not just a passive investor. You're actually an owner of – percentage of the actual property, not just shares in the LLC.

That can get very messy as well. Like I said, I don’t want to get too technical, but there are issues that can arise. Speaking to a qualified intermediary, or to an accountant, or to attorneys, depends who your attorney is. Making sure that you get the financial advice that you need beforehand.

Like I said, let's go back to these timelines that we were discussing. Timelines are the worst part of the 1031 and it kills the investors. A smart investor will start planning it, as soon as this whole process begins. If they hear from their sponsor, “We're thinking about selling. We're thinking about putting it on the market,” that's when they should call their accountant. “What do I do?” You want to give yourself as much time as possible.

[00:12:07] WS: I know we talk about 1031s a lot, but also there's a 1033. Is that right?

[00:12:11] RG: Yeah. 1033, it's a completely different part of the IRS. It's nothing to do with qualified intermediaries, to be honest. It's another way of avoiding capital gains taxes, but completely out of my area of expertise.

[00:12:23] WS: Well, mine too, but I just wanted to ask. I often get questions from investors that want to 1031 into our deals. They'll e-mail me and say, “Whitney, I’m going to fix and sell the properties. Do you have anything coming up?” Maybe they've invested with us numerous times. I want to say, “You know what? Let's discuss that. I want to make it available. I want to work with you.” I appreciate, obviously, their trust in us and placing large amounts of capital from a 1031.

Just some research that I've done over the past few years, I know operators who just say, "Absolutely, not. I'm not doing any 1031s into our deals," because they do have to do the Tenant in Common structure. There's more attorney fees. I'm having to give somebody ownership. All these things, like you've talked about. I mean, we're working through one right now, personally. I would like to have that option available. Do you see that there's a limit?

Okay. An investor needs to bring, I've heard of 300,000. I've heard a half a million. I've heard a million. I've heard different operators say, "It's just not worth the hassle, unless they're going to bring this amount." Is there a way that you quantify that, or to know to make it worth your time as an operator?

[00:13:29] RG: Well, I would say that if the investor is bringing all cash, meaning they're not bringing any debt, they did a 1031, they sold, they owned it, clear and free, then I would say, there should be no limit. Because honestly, it's very simple. It's a quick-claim deed. It's a one attorney fee, one LLC filing. It's really not that complicated.

Where it can get very messy is if there's debt. If there's debt, then they need to be on the written in the loan. It can get very, very bad. Then I would say, unless it's a significant portion, let's say it's a 10 million deal and it raises on 3 and a half million dollars, then unless they're bringing at least a half a million to the table, I wouldn't even consider it as a sponsor. It's just too much work.

There are options out there for those investors. Mainly, something called the DST, which stands for Delaware Statutory Trust, or many, many, many other things that can help them. Where it gets messy is where there's debt. If it's free and clear and there is cash, I would say, unless the guy, unless that investor is an annoying investor and who's going to be calling you every five minutes, which you wouldn't want to take anyway, even if they weren't a 1031 investor? Then, I would say that it shouldn't be an issue. Free and clear should be fine.

[00:14:35] WS: Okay. No, that's great to know, great to know. There are options. We can make this happen. You mentioned a DST. Could you just briefly mention, when should somebody consider a DST versus a 1031?

[00:14:47] RG: Well, a DST is a solution for 1031 investors. This all comes back to the same point I'm making the whole time, fix up your timeline before you have a crunch. If a guy's selling a property, know your options. Therefore, you won't get screwed by the brokers. Brokers call you, they say, "Oh, I have a great deal for you." Like I said before, great deal for 1031 investors. That is broker speak for bad deals.

Make sure you're set up beforehand, where you have your options. My view, a 1031 buyer is the same as any other buyer. You should not be taking advantage of any more than any other buyer out there in the world. You should be able to put an offer at the same that anybody else is. In fact, you should be more valuable than any other investor, because they know for a fact that you're going to close in six months, which is great, because you have to. If you don't, your 1031 goes bust and you have to pay capital gains tax. In my mind, a 1031 buyer is a better buyer for brokers than regular buyers. For whatever reason, it's not viewed like that, that's where I'm coming to try to change the game a little bit.

[00:15:45] WS: Nice. Reuben, what's been the hardest part of just learning the syndication business, or maybe even specifically, using a 1031 exchange in the syndication business?

[00:15:54] RG: The hardest part for sure is the lack of education that's out there. People are just not aware of the goings-on. They just don't know what they're able to do. They don't know their options and it's the killer. Just to get the education out there, to make people understand their options, definitely been the hardest part. You gave me an opportunity here, a platform here to try to help people out.

[00:16:15] WS: What do you predict, Reuben, is going to happen over the next six to 12 months in the real estate market? Any predictions that you have.

[00:16:22] RG: I don't know what my prediction's worth, but I think the multifamily market is going to continue to explode beyond. Office and retail is scary but, in certain markets, I think that it will only get better and better. It's the not great office and retail markets that are going to continue to just go kaput, but the good ones, the ones in great cities or the ones in great locations, those are going to continue to just go amazing. That's my opinion.

[00:16:47] WS: Do you have a couple of daily habits that you're disciplined about, that's helped you achieve success?

[00:16:52] RG: Yes. Well, that's actually an interesting question. I make sure to be in the office every single day at the same time. It's very important for me. I need to have a schedule. If I find myself getting out of that schedule, that's not healthy. It's just not good. I need that continuous – I don't even know what the right term is. I need to be in a zone and I make sure to get to the office at the right time every single day.

I find it's very important to be home with my kids and not to get home at 10:00 at night, but I try to be home for bedtime and things like that. I think that helps me stay grounded. It's enjoyable for me to be able to not only be focused on making money and being at work, but just to remember like, "Okay. What are we doing this for?" To get home, to have fun with your wife, with your kids, to be able to enjoy, it keeps me very grounded.

[00:17:35] WS: That's a great reminder for each of us right now, including all the listeners. That's so important. I'm guilty of it, getting caught up in all the just, go, go, go, go, go and you forget why you're doing this. What's the way you've recently improved your business, Reuben, that we could apply to our business?

[00:17:51] RG: Well, I started my commercial real estate brokerage, because I found that there was a real need for it. You have these 1031 investors that are just getting sucked into these bad deals and I was like, "No. Let's bring the power back to the 1031 buyers, because they're stronger than other buyers." The point is to find new ways to be able to provide value.

I spent three years in the 1031 world heavily as a qualified intermediary, processing documents, etc., to get to where I am today, to be able to open a brokerage and be able to provide that value. It's a matter of being patient, getting up to where you need to be in your current position to be able to continue to expand.

[00:18:29] WS: How are you finding new investors, or new clients right now? What's your best source for that?

[00:18:35] RG: I'm a big fan of a guy named Dale Dupree, I don't know if you know who he is, but he's a wonderful sales coach and he's very into the interrupting marketing. You have to be different. Why would somebody talk to me? There's a million brokers out there. Why would somebody talk to me? To continuously stay focused on that and say, "The reason they'll talk to me is because of X, Y, Z," and have those points in front of you whenever you're on a phone call, or whenever you're sending an e-mail and say, "Why me? Why am I different than the other thousand brokers that are out there?" To continually push those points, that's how you can stay ahead.

[00:19:09] WS: What's the number one thing that's contributed to your success?

[00:19:13] RG: I would say, staying in my position at Riverside 1031, learning the entire ins and outs of the 1031 industry. That allowed me really to know what I'm getting myself into, as opposed to day one, making cold calls and providing value, even though you don't know anything, less than my grandmother. That was probably the number one thing. I was able to be in a position that allowed me to learn and get better at what I do.

[00:19:40] WS: How do you like to give back?

[00:19:42] RG: It's interesting. I'm an orthodox jew, as you can see. We're very, very into charity and that's something that we do almost across the board. I think, the most important thing is to stay grounded, stay humble, stay within who you are. Don't be like, "Oh, I made my first deal. Now I'm" – No, you're a regular guy hustling like the rest of us. Make sure you stay grounded. I think that's the best way to give back to society. Don't be haughty. Don't be full of yourself. You're a regular guy and you're lucky God gave you this, God gave him that, but it's stay grounded, stay humble and that's just the recipe for success. It's obvious.

[00:20:19] WS: Reuben, it's been a pleasure to meet you and have you on the show. It's such a great topic and a topic, just 1031 exchanges with the inside of syndications. Oh, and I meant to briefly allow you to just mention, just any unknowns for – and just so the listener knows, we're recording this before we know the results of the election. This may come out after the fact, obviously. Just Reuben, any thoughts that you have on just unknowns of what could happen as far as 1031 exchanges, depending on whose tax plan takes place?

[00:20:47] RG: Well, it's interesting. This has been very heavily debated. If Biden wins, he has a plan to get rid of 1031 exchanges. If it happens, it will take a very long time for him to actually pass that legislation. I'm not really concerned about it yet. I don't think it's something that we have to be that concerned about today. If he wins, that's something that will be heavily, heavily debated and a topic that will be a lot of lobbyists pushing forward, pushing against it. It could be fun. Today, I don't see it affecting anything.

[00:21:13] WS: I appreciate that and just your take on that. Grateful to have met you again and have you on the show, talking about just your expertise. Now, at least the listener knows and passive investor knows who they can contact. Tell them how they can get in touch with you and learn more about you.

[00:21:27] RG: You can reach me at my cellphone directly anytime; call, text, WhatsApp. 347-471-3669. Or you can e-mail me, reuben@cgcommercialrealty.com. Very easily accessible. You could even message me on LinkedIn. I'm always happy to talk.

[END OF INTERVIEW]

[00:21:44] 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]

[00:22:24] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Lifebridge Capital. Lifebridge 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. Lifebridge 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]