EPISODE 810

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[00:00:24] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Jonathan Tuttle. Welcome to the show, Jonathan.

[00:00:32] JT: Thank you. I'm excited to be here. Thanks for having me on.

[00:00:34] WS: Jonathan is an investor or speaker and upcoming author. He's a creative problem solver while ethically serving others first. And he is a fund manager at Midwest Park Capital, a mobile home park fund.

So, we're going to dive in today on mobile home parks and this fund that he's operating and even some COVID stuff and just interested to hear more about Jonathan's story and then just also how this portfolio has performed during the pandemic and this mess that we've all been working through. So, Jonathan, welcome again to the show. Give the listeners a little more about who you are and let's jump into your superpower and you managing this fund and just mobile home parks during the pandemic.

[00:01:10] JT: Sure, yeah. So, I've been fortunate enough, my dad was really into the real estate game. He was a general contractor for 75 Custom Homes. So, as a kid, I was always seeing houses from the ground up. I also had three real estate brokerage offices, which he owned a manage. Additionally, he bought commercial real estate. So, I pretty much from like, being a little kid, when everyone else is playing the playground, I was playing on properties. Which is kind of a good perspective and seeing that, and this is, especially, because I grew up in the ‘80s and we saw the turbulent times, which is kind of correlates to today, with what's going on COVID and the challenges. So, being able to survive different real estate cycles, it kind of gives you a unique perspective. And I'm just fortunate enough to have that background from my dad, that's why got me into mobile home parks.

I got this first park about 15 years ago, before it became a big trend, as you're starting to see now like Wall Street. I used to tell my friends, I'm like, “Hey, I want to invest in mobile home parks.” They’re like, “What are you talking about? What is that?” Now, it's becoming kind of commonplace with Wall Street and [inaudible 02:12], Warren Buffett, in this space. But back then it was kind of like, “What are you talking about?” But as of today, it's been a good journey.

[00:02:18] WS: It's interesting to see the mindset of mobile home park shift a little bit. It was. It was like this thing of what in the world would you want to own one of those four? I mean, you're crazy, right? And now, so many people are trying to get into that space.

Well, let's talk about your fund a little bit and talk about even why you have a fund versus doing the individual syndications. Let's just start out there.

[00:02:39] JT: Sure. We actually have in our family of two parts, we used to have three, we sold one, we had an offer we couldn't refuse. I just wanted to scale faster, I think we have like a five or six-year run, which correlates to what you just said, because everyone is trying to get in this space because it's been performing so well. It's typically a mom and pop owners only about two or three as traditionally owning. But that's going to drastically change over the next five or seven years. So, we're trying to get as many parts as possible. It's not like something like oh, “Buy a park now and then five years buy another park, and another five years after that.” Because most of these are once in a lifetime deals, so it's like the ramp-up speed execution, time is now, we have a five-year run I think to acquire as many products before the cap rates get compressed.

To just give you a little context. Ten years ago, cap rates were, you know, 10-cap was commonplace, and it was like a closed-door how to market or better market. It’s the [inaudible 00:03:29]. Now, eight cap is like rare, Midwest still has eight caps, but if you're like closer to major metros, you're still in the six, six and a half cap. And so now you're approaching multifamily and that's what's just really changed. But luckily, we've been one fortunate angle is Fannie and Freddie are really, really, they're about 50% of all loans right now in terms of value. So, we never had that financing 10 years ago. If you had a bank loan, obviously, no, let's say it's five and you have an eight cap, okay, but three-point spread, but now you have a six and a half cap and you had a three and a half, Fannie and Freddie, you still have that three spread. So, the cap rates, even though it sounds worse, at least you have that spread and if you have that spread, a three-point spread, you’re going to get cash and cash in the teens.

Also, another value too with mobile home parks is the land appreciation, like you can’t depreciate land, you can depreciate land the improvements in all mobile home parks if you're just mostly running like a land lease. The lots, the concrete, you'll mostly have concrete and that's what the home I sit on plus like the fencing, it could depreciate around 65%, 75% the first acquire plus bonus depreciation. So, it's a pretty attractive asset class right now because of all these like hidden benefits basically.

[00:04:41] WS: For sure, wow. Yeah, I know. It's definitely gaining in popularity, like we've talked about. Let's talk about your fund a little bit, your parks, what's happened over the last year we'll say, maybe where you are at, last November, December and then compared to March and then June and kind of walk us through how COVID affected your properties in your mobile home park specifically?

[00:05:03] JT: I mean, it's kind of a shock to everyone in this world. That's the first thing. I feel bad for some asset classes. We're, unfortunately, over the last 50 years, mobile home parks have been the lowest default rate based on bank data. Self-storage is a close second, but they actually got affected this year also, because they got overbuilt. I mean, like all asset classes in some way, shape, or form. But the one advantage to us is for our perks, we didn't see maybe one or two people pay it like a couple weeks late. But then again, our average rent is $300 for our personal parks, and they had the stimulous, which helped, in the end of that income, we have a mostly senior park. So, they get the social securities and then like their rent to expense ratio is a way below, so that's one of the advantages of this industry is we have a lot of the focuses on seniors, and the baby boomers is 10,000 retiring every day. Just on Social Security, a small savings, we’re the only affordable option.

If you look at how a government looks at when you went to get a house, you won't have one-third payment down. Basically, they want to see that spread. We’re one-third of apartment price, one-half apartment, one-third a house. So, even if it's $300 or $400 lot rent, or if they work $10 an hour, we still serve that need. And there was a study, I don’t know about the time you see this, but about three days ago or six days ago, sorry, Green Street, which does data for all the commercial real estate assets, pretty much all institutional data, and industrial and mobile home parks are the only two that have actually gone up in value this year. We've gone up about 8%. And you've seen double digits negative for obviously like malls, because e-commerce, you can't go in the mall, retail, lodging, some other asset classes are like 6% to 8% decrease in value. And we've seen an 8% increase in value.

It's just been fascinating to see like this is what we've been preaching for the last couple years that we are recession resilient, or at least the last 10 years. And now, we actually have the data that backs it up. Wall Street Journal did an article in February of this year, 2020, we did the previous year, since the last downturn, mobile home parks were the best performing real estate asset classes, Wall Street Journal article. It mainly just comes down to supply and demand. There are 60 million Americans need affordable housing. There are 10,000 baby boomers retiring every day. The spending power, inflation, all that works to our advantage and we're the only thing that could solve that problem. And the problem is, there's only 12 million mobile homes and 44,000 lots. So, there's this huge demand, but there's not enough supply.

[00:07:25] WS: They're not really building more mobile home parks, right?

[00:07:28] JT: Correct. That's the biggest thing. And once you have one, it's like a goldmine, basically. You want to solve the affordable housing, provide an ethical, safe place to live and fair pricing, you still have to maintain it. There's still cost involved with that, obviously. You can tell some people like, "Oh, there's so much labyrinth for that." But well, okay, we have to maintain the grounds, you have to maintain the sewer lines, we have to maintain all that. And plus, we pay the bulk of the taxes. So, if these get torn down, which is about a certain percentage get torn down every year, there's plenty of people that don't have a place to live.

So, we look at it as like, "Hey, we're providing affordable place. We do the CapEx and you come in. We make sure there are improvements, bring more amenities, bring everything up to speed, and they have a better quality of life." And we're really passionate about that. But also serving that affordable housing.

There was also, I forgot what date that was, that 93% collection of rent during the worst part of COVID, March and April institutional data. So, when everything else, I heard some certain asset classes got down to 70, 75, there's about a 93% collection rate based on the data. Wells Fargo did a recording in that too, as well, their commercial lending.

[00:08:34] WS: Can you just speak a little more about – was there a way that your fund or your parks were better prepared for a downturn or better prepared for COVID? I know mobile home parks, in general, you talk about how they're just more resilient. But was there anything specific that you were doing, even beforehand that have helped you to just minimize any kind of internal downturn for those parks?

[00:08:56] JT: So, at Midwest Park Capital, and our parks personally too, we always try to buy parts that are more – we don't want your own parks, we're not trying to come in and say, "Hey, we got to completely turn around." There's obviously opportunity for it, there's a lot of upside, but it's a lot more boots in the ground and just more working, and running out all the units and bringing in new units. We try to identify the better opportunities that are already well-positioned. They're already top tier. The parks that people really demand. We're not trying to get a part that's in the middle of nowhere, with no chance of getting the residence in there, those parks like that.

So, first, acquiring the right park. Second, you look at parks, do the correct due diligence, and it's a whole long process. I won't go into details on that, but make sure you do the correct due diligence. Marketing, we use a lot of Facebook marketing. Marketing really makes a difference because if you were competing with a lot of mom and pops, like I mentioned, it's mostly mom and pops, and most of them know how to use Facebook. So, if everyone is on Facebook now, hundreds of billions of people on Facebook, Facebook Marketplace is free, way to market units, and it was really, really effective and it's very cost – if you're not paying anything for, you could boost it. But most the time you just put on there, you get 20, 30 calls on a unit, if you're selling or renting them.

Especially now with everyone with COVID, they're on land looking at properties. We're surprised, I even had like 65 or 70-year-olds, like, "Oh, thank you, I saw that in Facebook Marketplace." Everyone's on it. You're just getting in front of more audiences, to keep the parks maintained and keep the demand there. And that's been really efficient with the management.

[00:10:34] WS: Yeah, what are some maybe different things that you do when managing your properties that maybe other mobile home park operators do not that just help you to stand out or rise above?

[00:10:43] JT: We use a third-party manager, I call them Shapiro. They're the biggest operator, about 35,000 lots. They manage Apollo's groups as well, which is one of the biggest private equities in the world, plus a 30-year history. So, having the right team, we have a season Park CPA that just works another fund, has been in for 20 years, having really an all-star team. And not just cutting corners, making sure you have an all-star team, everything from management to the CPA. And then like I said, it comes down to the requirement parks. It's a lot of industry relationships. I've been in the space 15 years. I was supposed to be one of the speakers in the national Expo with Dr. Ben Carson. And then Clayton Homes, which is the biggest manufacturer of mobile homes.

One of the 12 speakers this year, but obviously COVID, it went to digital and digital was like a small segment. So, hopefully I'll be on the speaking stage next year. But what that means is I have a lot of industry relationships. We get deals that people don't see. Like a lot of stuff, because it is supply and demand, they want to work with people they know they can trust and then the business. It's a lot easier for somebody like us to get better deals and somebody just come into space like, “Hey, I heard about mobile parks.” And we put the years then, so they trust us now. They're playing catch up to us.

[00:11:52] WS: Nice. The team is so important in whatever business you're in, especially in real estate. Who is the management company again?

[00:12:00] JT: M. Shapiro, they’re out of Michigan.

[00:12:01] WS: Nice. What's your criteria now for when you're finding a mobile home park? Is there specific sizes, locations? Are you just anywhere in the country? How are you finding those deals and what's your criteria?

[00:12:12] JT: For Midwest Park Capital, we focus on 75 to 250 units. It's better for scale of economics, efficiencies, like Midwest. Midwest has about one or two points in a minimum higher cap rate. Coastal City is a more institutional private equity and like they're bidding it down. Obviously, they have access to capital way cheaper than we can. So, we focus in the Midwest. We also like Tennessee, and Texas, because, the growing economy, people are flocking there. So, we like the Midwest focus for that reason, 75, 250, most of the parks we’re acquiring at 1970 to 1990 because there really hasn't been any developments as you alluded to, in the last 20 to 30 years. It's almost impossible to develop it from ground up. And the problem with ground up development, if you get one of the few people a year that gets it, luckily, you're basically developing a subdivision from the ground up. You're not buying a cash flowing asset. If you a buy an apartment building or you buy self-storage, and they already have tenants in place and rent rolls coming in, you're literally building up, putting $80,000 per head, plus you haven't filled the marketing, the approval, you're not even making a profit for like three or four years.

Our philosophy is let's buy somebody's cash flow right now, prove the efficiencies. If we get, I mentioned, go back to water and sewer. That's one huge way if it's allowed to increase the NOI. Also, just really marketing efficiencies and management efficiencies. And that really separates it. Because remember, a lot of these people that have owned it, had it for 30, 40 years and sometimes, they're living in a small town or tertiary market. They have like a $4 or $5 million mobile home that they've paid off. They're making 400,000 or 500,000 revenue. They're not trying to maximize it, every little dollar. Sometimes they haven't raised it around like 15 years because I already have half a million dollars. I live in a town where the average income is like 30 grand. They need those maximized.

[00:14:00] WS: Nice. That's some great criteria. I appreciate you just elaborating on that. And as the economies of scale, 75 to 250 units for sure. Before we even started recording the show, you mentioned just like the most popular real estate niche in 2021. Why is that?

[00:14:16] JT: Yeah, I'm going to be writing an article in Forbes about this. It's literally just the supply-demand. We're seeing so much migration from other asset classes and people inquiring from their retail, especially retail, hospitality and lodging. We're seeing like, it almost feels like they're [inaudible 00:14:31] to see if they can start your own. But it's because they've been so affected by COVID unfortunately, and we just have the supply and demand to our advantage. It's got something unique attributes to it. The whole thing we want to do is basically just on the land and rent the units out. And when you have less to work with, it makes a lot more efficient. There are still challenges, people say, "Oh, you just want to land." But no, there's still challenges, still got a marquee of stuff, and train the staff correctly. That the hidden challenges are like if a tree is to fall down, do you have to make sure that the tree is not coming down on the houses. Like that's a big issue of like doing that tree trend. All of a sudden it comes down to this mobile home. It's basically just a shoebox. There are no load-bearing walls in the inside, it's just the outside. To come down, you have to basically brace the unit, and its gone.

As an experienced operator, you know that you come in, first thing you do, and you also use that in your price negotiation like, “Hey, these trees haven't been trimmed for 20 years, that's going to cause expert tree based on what it is. We need to knock this price down.”

[00:15:29] WS: Jonathan, what's been the hardest part of the syndication business for you?

[00:15:34] JT: Right now, the hardest part is our first one. Even though I've got a track record, it's more like people want to see it's getting past that hurdle. So, main thing is we got to come in, we're just basically saying here, “We built an all-star team. We have the best property management. We have the best CPAR fund software, has 100 billion under assets under management, and they managed Carlisle groups.” So, we've really picked and choose and I've been in the space for 15 years.

One thing that I've been at a disadvantaged to is all the trade shows, normally we would have booths there and we take people out to dinner. These are all cancels. We're doing a lot virtually and then who are audience is, credit investors, high net worth. Yeah, there's different areas that oversees them. People sees them with Zoom but you also have a demographic of a large percentage of accredited investors, they're still phone calls. It's more like, “Hey, I want to see you face to face”, but they don't know how to use Zoom.

So, instead of like, “Hey, let's go out to dinner, bring your friends and family.” We can't do that. We don’t have a focal point of focusing on digital but the most affluent people that we normally have access to, we don't have that full access, we can't take them to tradeshow, we can't go to a tradeshow, we can't take them out to dinner. So, I think that hopefully will change next year, because we want to do a couple more funds as well where we could still get people face to face and that's how you really build trust with people.

[00:16:47] WS: Has COVID changed the way that maybe you prepare for a downturn or another downturn in the future?

[00:16:52] JT: We are doing the same position because our asset class fortunately aligns with COVID. It's almost like the COVID killer, I guess you call it. So, it hasn't affected us in that regard. Like I said, the rent rolls there, the values of properties have gone up, there was a recent Bloomberg article, it's like 23% increase in some values of some. They were saying some communities like institutional properties. So, actually, that's the biggest thing is, I guess, the answer to your question is, the biggest thing is keep focused in the Midwest because we have the higher cap rates because the compression is going to keep going down. If this starts going below like, five, five-and-a-half cap, then it's like, "Okay, you're not getting that nice team spread on cash in cash." So, then it becomes, "Okay, I guess, you look at a comparatively rather have a cash flow, but you're not going to get that nice return right off the bat. You're going to have to do a lot of like management. You got to find different angles to make it really an attractive asset long term."

Luckily, we're not in that position right now, and I think, the Midwest has a four or five-more year run. But five years from now, this is probably going to be in like a normal asset class like multifamily, that's where it's kind of headed to.

[00:17:54] WS: Jonathan, I believe anyone that's successful in business and in real estate for sure, as a high level of self-discipline, how did you gain such a high level of self-discipline?

[00:18:02] JT: Lots of mentors. I've always reached out – always paid for speed execution. So, when I first started out, I go into rooms where I'd be like nervous with the most successful people. Well, you pick that up and then at the same time, on my free time, like last year, for example, I read over 115 books, but it was through audiobooks. So, when I work out every morning for an hour and a half, an average audiobook is six hours, you get 50 books a year, just by going to the gym, like literally audiobooks, just put it on there, hit the treadmill, listen to the audiobook, and at night, I put an audiobook in there. So, that gets my foundation, so when you do go these rooms, when I first started out, at least would have knowledge and I'd have speaking points that could say it's worth their time to actually converse with me.

So, the bigger rooms you get into and the more successful people, which I deal with a lot of very high net worth people now, they'll actually have 45-minute to an hour conversation, because we could go back and forth and then they're not wasting their time, but there wasn't any value there. So, literally just putting that the framework in of like, this is going to be a long journey, you're going to have to take time to build trust. You're going to have to pay for mentors, learn from the best, and then just keep continuous education. And over time that compounds and that builds that strength and builds that entrepreneur, basically, skills that you need to have and that fills you at the end of the day.

[00:19:17] WS: Did you say 115 books?

[00:19:19] JT: Yeah, sounds crazy, but it is, yeah. So, I did about 50 audiobooks. And the Scribd, the app is eight bucks a month. They started throttling me after you do like six or eight books a month.

[00:19:28] WS: Is it Audible or what?

[00:19:28] JT: No, Scribd. It's way better. It has pretty much the same selection. It's eight bucks unlimited, but then they throttle you. I'm like a power reader. So, I told him like, "How about just charge me like four times the amount and I could do 10 to 15 books a month." So, eight bucks, unlimited audiobooks. I know some people like to put them in faster speed but I just put on that and it just gives you like a foundation, so I read a lot of technology books. I read a lot of the – right now, I'm big into like history of successful entrepreneurs like Sam Zell, Henry Ford, Walt Disney, some of the old classic guys and hear their challenges. And also, how they went through and succeeded. So, it kind of gives you a foundation of like what others had to do to get to that point.

[00:20:06] WS: Any daily habits, maybe obviously, this is one of them, but any daily habits that you're disciplined about that have helped you achieve success?

[00:20:14] JT: definitely working out. I think last year, I kind of neglected that a little bit, actually beginning of the year when the gyms are closed because of COVID. But just incorporating the cardio at least or stretching and also helps destress you, gets the blood flowing, gets you energized for the morning. If you don't have that, you drink like four or five cups of coffee, and then you have that lag in the middle day. But if you do that workout in the morning, I think it definitely feels good. If you could just do anything that – if it's weights, yoga, something that you could do, but at least you're doing something active in the morning, I think that really sets this tone for the day and gets you going in the right direction.

[00:20:45] WS: What's your way you've recently improved your business that we could apply to our business?

[00:20:49] JT: I think just really focusing on digital. Like I said, definitely websites, SEO, having just a really tech forward because everything is digital right now. We really invested in that when we first started out and I've been really a big act, big hit for the last four or five years in digital and tech. But now this year, it's like, that was a great move because everything from this point on they said, even with e-commerce, they said we've kind of moved for like five years, because the COVID. So, the things that they were kind of predicting from 2025 are kind of happening now because everyone's working from home or everything's online. So, having that online focus first was a huge advantage to us.

[00:21:23] WS: I know you briefly talked about this a little bit about meeting people and networking. But what's your best source right now for meeting new investors?

[00:21:29] JT: That source is Facebook. Facebook and online marketing.

[00:21:33] WS: Is there a specific way you're doing online marketing?

[00:21:36] JT: So, paid ads on Facebook, it's a lot more efficient. We've used Google ads too, but with Facebook ads had been the most effective and then we also, if you google like Mobile Home Park Investment Fund or Mobile Home Park Investment Company, Money Management Mobile Home Park, we're like number one or two in every keyword. So, they get a lot of like real high-value people from that. Those are actually the highest value because we're organic, and like the major keywords in our industry, which is pretty cool. So, that helps out a lot.

[00:22:00] WS: What's the number one thing that's contributed to your success?

[00:22:02] JT: I think the number one thing is just endless tenacity. Never giving up and constantly reinvesting myself and continuing to learn and just keep pushing forward. I think, as entrepreneurs, business people, real estate investors, audio audience, is just keep being tenacious and keep adding value and keep improving and giving back at the end of the day.

[00:22:23] WS: And how do you like to give back?

[00:22:25] JT: I've done a few different charity boards in Chicago. One, I'm kind of known for my dog's birthday. It's called the Brownie Birthday bash. We didn't do it the last two years, because he's a dachshund and they have dog problems, the back problems, I should say. But we did five straight years. We do events and all the money goes to – we'd rent out like a venue in the Chicago, in the River North, which is like the trendy area and we raise the money and they go to homeless dogs and we bring dogs in there and dogs will get adopted from that.

I also sat in the Chicago Chef's Hall of Fame for five years too, which a portion of that was to give back to culinary students that couldn't afford going to school. I sat on a couple other different boards in Chicago. And then this year, 2021, by the time these airs, next summer, we're going to start a 501, [inaudible 00:23:07], people in our mobile home parks to help them, we're trying to think of ways to help them if they're just paying the payments, they need some money, the kids need some toys or supplies or something like that. So, we're going to start a charity event just to help those in need as well.

[00:23:21] WS: Nice. Well, Jonathan, it's been a pleasure to get to know you better and to have you on the show and just really hear about your fund and mobile home parks in general and how they're resilient, through this pandemic and through even future pandemics. You haven't really had to change much because you've already had those things in place, and just how business is growing and how you're scaling that 75 to 250 units at a time. That's going to scale pretty fast, buying properties like that. So, great to get to know you. How can the listeners get in touch with you and learn more about you?

[00:23:49] JT: Facebook, just go to Jonathan Tuttle Official on Facebook, the Mobile Home Park Fund, Midwest Park Capital, just how it sounds. And then if they're ready to do more like farther down, if they're looking to see the PPM, the private placement, go midwestparkcapitalfund.com or 833-MHP-FUND. We got that. I don't know how we got it. But it's pretty cool.

[00:24:11] WS: Awesome. That's a wrap, Jonathan, thank you so much.

[00:24:13] JT: Thank you for having me.

[END OF INTERVIEW]

[00:24:15] 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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