

EPISODE 837

[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 are Julian Sage and Jon Bell, thanks for being on the show guys.

[0:00:33.2] JB: Thanks for us, Whitney.

[0:00:34.0] JS: Thanks for having us.

[0:00:35.5] WS: In 2019, Jon and Julian began teaching others how to self-manage properties through their blog, Short Term Sage, which has grown a community of thousands of host and have the number one podcast on iTunes for Airbnb. Jon and Julian currently help others I multi-family space through leasing and managing short term rentals through their management company.

Guys, welcome to the show, I'm looking forward to this conversation, I know there's a lot of talk around Airbnb right now and you know, is it something we should invest in, is it not, what's going on there, you know, hopefully you all could shed some light and that I'm sure you can.

I just think whether we're managing a single-family house, a duplex, or whether it's a 200-unit complex, short-term rental is something that we should have in our tool box. You know, or something that's available to us and at least have some understanding, or at least, someone

like you that's potentially a phone call away where we can move into some other avenues if we need to rent some units or maybe even increase some income for a while.

Depending on if it's in a place where that would work. Welcome to the show, let's dive in, tell us a little more about your business, your focus right now and let's tell the listeners how they should – why they should be thinking about this asset class as well.

[0:01:42.4] JS: Yeah, definitely, thanks for having us Whitney. One of the big things Whitney, that we'd really like to be able to help your audiences to realize that short-term rentals is like an asset class that you said, and a tool on their toolbox that they can definitely utilize.

A lot of people that come into the space that we help to educate, they know nothing about short-term rentals, I know Airbnb just recently had their IPO and they did really well and you know, people might be looking at Airbnb and short-term rentals as something that they can incorporate. You know, definitely want to be able to talk about some of the different options that multi-family investors would have in the space, if they are interested in an "in Airbnb."

[0:02:22.2] WS: No, that's awesome. I was just thinking. Like we both said, it's just a great option to have in our toolbox and we need to – maybe I'm not an expert in Airbnb but I need to know that there's at least an option. If I need to seek somebody out like yourself that is an expert, maybe partner with or bring in on our team or at least provide some guidance or something if it's something that we need to take advantage of as well.

Why short-term rentals and what kind of got you into that? I know maybe you have military background, is that something that kind of push you into short-term rentals?

[0:02:52.9] JS: Yeah, for myself, you know, I fell into short-term rentals just because as a military guy, moving to the DC area, you know, it's expensive to live here and short-term rentals really allowed me to be able to start actually living in my house for free. I purchased a primary residence and I was just trying to look to save some money.

When I listed my basement unit online, I realized that I was actually quickly able to cover my mortgage, which kind of inspired me to start this blog, Short Term Sage to be able to teach other

people that you know, short-term rentals is a way that I don't have, as a military guy, I wasn't making a lot of money.

Having the option to make over \$2,000 a month off of a basement unit is kind of crazy when people are investing into properties, spending tens of thousands of dollars to maybe make two, \$300 a month with a lot of headache. As a short-term rental — it's a lot of simplicity, there is a lot more ease, there are different things because it is a hospitality business but when we started teaching other people in the space, we quickly realized that this isn't just list your basement unit online and make money business.

This is actually something that you can build a whole business around or, you can incorporate that into your other types of asset classes like, in the multi-family space is what we started realizing as we scaled our company.

[0:04:08.2] WS: Nice, Jon, where are you located and why is Airbnb your focus?

[0:04:13.2] JB: I'm in the DC area in Maryland proper. You know, I thought of Airbnb and short-term rentals as more of a way to get some side cash. I was an avid flipper, I had a franchise called Homevestors where I was buying homes and flipping homes and I was kind of — I would say mediocre in doing that.

I was able to bring in some money but then at the end of each flip, I was still kind of like, "That's a lot of work," just to get maybe, of course we're talking probably 60,000 in profit but I just felt like I could be doing something different or better and I stumbled across Airbnb's just by going and staying at one and once I really did the math, I was thinking, "Woah, this is something that is way better than just going out and flipping homes".

I started — I had a full-time job at the time and I just wanted an extra \$4,000 a month and I was able to achieve that very quickly and before I met Julian, I was already scaling up to about 24 apartments. I had the 24 and I was still working my day job, it just was so easy to kind of get things going and I took that franchise mindset that you know, systems and standards kind of thing where I built these systems and it made management of these apartments really easy and I just didn't, it didn't stress me to have them and I was —

Because I was a flipper, I knew other flippers, right? So my investor friends that kind of came out and they had properties, they were going to flip or they bought a bigger building and they didn't know what they were going to do.

I became an avenue for them to kind of flip too or basically fill an apartment that they had vacant. Then I would add extra income for them. It was like a win/win for the both of us, until they started, you know, literally throwing apartments at us just because, "Hey, I'm confident that Jon, at the time, could just go out and just fill these apartments so I'm just going to buy a bigger building, I'm going to give 20 apartments to Jon and he's going to go and do it that way".

Very interesting, very fun, great business to couple in like you guys said.

[0:06:21.7] WS: Nice, well, it's just interesting just to hear how people chose the asset class that they're working in and committing their time to. I feel like Airbnb is something that like I said, we should be – we should know about. Can you just give us a few things, I'd like to talk also about how you all are using a fund, you know, to invest in short-term rentals?

Before we do that, help the syndicator that's listening right now to kind of open their mind a little bit to "Hey, maybe we have a couple of units that we could turn into a short-term rental," what are some things they should be thinking about and why maybe they should strongly consider that?

[0:06:52.9] JS: Yeah, well you know, as a syndicator, there are a couple of options that you definitely want to consider. If you do have a property, you know, a lot of people say, you know, it's "location, location, location," which is important but the thing about short-term rentals that we see and that we teach others is that short-term rentals don't always have to be in these major cities or they don't have to be specifically in vacation destinations.

A lot of people travel to different areas. You might have a multi-family building and maybe more of a rural area that's outside of where, maybe a lot of hotels are. That might actually be the perfect area for a short-term rental because people traveling to that space, maybe they are looking for a corporate stay, maybe they are traveling nurse, a blue collar worker, someone

that's going into maybe an area that your property is located in, that you can accommodate for and there might be a large business there, it could be next to university or schools.

A lot of syndicators are looking for these prime locations where there is going to be increased jobs, where they maybe are near university or they're by something that is going to draw people in. Those same reasons why people are going to be drawn in to live are also going to be very similar to the same reasons people are going to be traveling there to stay.

If you are looking to incorporate short-term rentals into your business, there are a different couple of options that they might have to choose from.

[0:08:17.1] WS: Yeah, I think too, I mean, we have to think through like supplying like the furniture and just having it outfitted, right? You know, if we're going to have one or two units like that but it could be a potential increase in income for a few units at least, right?

How would we think about like how many units we should consider or have you seen other multi-family operators say, "Okay, let's start with one and then let's see what happens," where do they start with a couple. What does that transition look like to kind of get our feet wet a little bit?

[0:08:43.4] JB: That actually just starts out just by checking almost the person's temperature where some people do want to start out just with one unit, some people are already somewhat hip to the space. They want to start out with more. Typically, what we end up seeing is people doing at least 10% of the apartments that they want to do, let's just say within the first year, whether that roll out means they're going to start out with hey, just two or they're going to do more.

We see that they like that or in some cases, we actually take up entire floors. Just because some people don't want to mix short-term guest with long-term guest. We understand that concept of course. The advantage of having like somebody like ourselves come in is we can take the floors that are necessarily not that popular or maybe like all ground floor apartments because our guest don't necessarily care that "Hey, I'm not living here on the ground floor but

yet, I'm just coming to stay, this is a comfortable space, it's styled very nicely and I'm just here for a week."

That's one advantage that we can definitely offer there but if we're talking about numbers, right? Let's just say you can make \$300 per door just on a regular apartment. What we're able to bring in typically is about double that when we're taking it to a short-term market.

We're adding almost double the profit per door to the investor and that's something that this industry is really the only thing that can do that.

[0:10:10.8] WS: Is there a way to know for sure that this is going to be a good investment for us. I was just thinking about like how do I say, "Okay, this property, if we have 500 units in one market, how would I best determine which property I should start with, maybe one or two to start with?" To try.

[0:10:26.5] JB: There are some really useful tools out there that we use in our industry, one of those tools being AirDNA. AirDNA, it's just a market analyzer tool, another tool that we like to use as Price Labs which is a pricing tool and they have similar data, a little bit different. Then going online and looking at sites like Airbnb and seeing what other listings are in the area and what some of the revenue and that they're bringing in.

Not only the revenue though, but the quality of the properties, these are things that we look at. Or, you could work with guys like us, we love to look at properties and analyze them and come up with numbers and see if it would be a good fit and that's kind of one of the services that we provide to multi-family owners.

[0:11:08.6] WS: Nice. Let's talk a little bit about how you aren't just going and buying a property to turn into Airbnb, you're also operating a fund that's buying Airbnb properties. Can you just speak to that fund a little bit, operating a fund that buying Airbnb properties as supposed to – a lot of the listeners are going to be familiar with obviously, syndicating deals which are funds in themselves but you all have a different type of fund and can you just walk us through that a little bit?

[0:11:34.6] JB: Yeah, we came up with a different concept, right? We worked with a bunch of people, a bunch of investors and what we found is that having a certain amount of units in one space is great but there's some seasonality that that person is exposed to.

How do we kind of hedge off some of that seasonality, which kind of gave us the idea of, "Hey, let's start a fund" where we can go out, we can pick up apartments in different markets to basically flatline the seasonality across the board, offering great returns just throughout the year.

We also know that hey, picking up a short-term rental is way cheaper than going out and buying a property because we use a method called rental arbitrage, which is basically, we go and rent an apartment and we rent it back out to Airbnb guest or short-term guest.

That way, we're only in for the furniture, the security deposits — so, we're talking, let's just say 10,000 per apartment. Allowing somebody to come in, dump some money into the fund, we're actually paying out 24.5% IRR on that fund so really great returns and we're doing that over a five year spend and you almost could double your money by investing into the fund.

[0:12:48.0] WS: Interesting and tell me, what parts of the country are you all seeing as best for Airbnb right now? Maybe you can speak to just the pandemic and things that's happened as well recently and how that's affected this market?

[0:12:59.4] JS: Yeah, you know a lot of people are looking at short-term rentals. This is something that has been seriously impacted and that's really going to be very market and location-dependent. Let's just say for us, you know we've got properties located in Miami, DC, New Orleans, Pensacola and different areas, each market has a slightly different effect. You know, we see just outside of the metro areas are actually doing surprisingly well because people are looking to get away from the cities and looking to get into more rural, more outside of these metro areas.

Even in these metro areas, again, people are still travelling for work. People are still doing business, so you know, the areas that we might see the greatest impact might be completely isolated destinations maybe like Tulum or a lot of maybe like ski resorts, things outside of that but really again, it is going to be market and location dependent because each county is going

to have different regulations on how they will adjust the travel but short-term rentals it really is a market specific type of effect.

[0:14:06.5] WS: Let's say, okay as a multi-family operator, we have a couple of units where you are not turning into Airbnb. What are some ways that we can maximize revenue? I mean some things that I wouldn't know about unless I am speaking to somebody like yourself that we haven't talked about earlier?

[0:14:21.3] JB: You know I would say, it's probably best to go out and just contact somebody like us or us because we are going to be able to analyze the property and tell you at least what we expect to bring in and we have a template in which that we know we can put in as far as aesthetics and looks and feels that satisfy our guest. You know, a lot of people sometimes when they think of Airbnb, it's like, "Oh I'm going to IKEA, I'm going to pick up this furniture. I am just going to throw this thing together but I want to charge \$300 a night."

That technically is an epic fail. If you go out and do something like that, you're really not going to maximize what you are going to bring in. Your reviews won't look that great. If you want something that's very turnkey, you want to talk to a professional that's done it over and over again and collectively at the moment, we have over 50 apartments that we do this for and like I said, in multiple markets. It's very easy for someone like ourselves to come in at a direct and then go ahead and just provide returns for you.

[0:15:21.1] WS: What about the price range or class of property that we're going to get the best return on investment? I know the location is going to mean so much and all of those things but if we are thinking about a class-A building or nice duplex on the beach somewhere versus a smaller house, older house in town somewhere, you know, how do we think through some of those things and just how nice of a property it should be?

[0:15:45.9] JS: Yeah, I think that comes down to the type of guest that you are going to be hosting. If you are going to be – if you have a building right by the beach, you know, real class-A property, what you're going to be charging is going to be obviously a lot more for that property because you're going to be trying to attract a guest that maybe just travelling for an experience. They are looking for something that is a little bit more high-end.

If you are going to be putting money into that property, they're going to have a certain level, a certain expectation, more like let's say like a Marriott, a real high-end Marriott type of stay — as oppose to maybe let's say this is a rehab property. Maybe it's a B-plus, B-property and more of a rural area, then you don't have to go super high-end in the property. You might be catering this towards more like a family traveller. You might be thinking more in mind of like the hotel, maybe more like a Holiday Inn.

Something a little bit above that maybe because again, a lot of people when they think of Airbnb, they think of maybe like your mom and dad basement unit in your primary residence but the real shift is that you know, you have a building that can be very similar to like how a hotel. We are looking at short-term rentals and more of like a franchise model. If I am going to be travelling to the area and I see a beautiful building that looks comparative to a hotel but it's got a full kitchen. It's got a full bathroom, or a walking space, I am going to be maybe more inclined to travel and go to that area with my family or even just personally because hotels are going to be very limited in space and what they provide to me personally as a traveler.

[0:17:19.3] WS: How do you prepare for a downturn with Airbnb?

[0:17:23.7] JB: Yeah, it's one of the questions that we get all the time and even how we kind of made it through the pandemic and things like that is we got to know our seasons, right? Knowing our seasons let us know how we basically change our pricing and we get really aggressive on pricing when things are low that way we can get longer stays and we try to target longer stays. Stays that are like three months or less or most of the times more.

We just try to get through that low to get back to the high where we can go ahead and charge our maximum price. Pricing has a lot to do with it, marketing has a lot to do with it and actually just screening and trying to get the right guest for the right length of stay is really key.

[0:18:06.3] WS: Now, what do you all predict to happen say over the next six to 12 months to see there in the real estate market in general or specifically to short-term rental?

[0:18:15.3] JS: Yeah, I think the big shift in the short-term rental market is like we're saying there's been these homey Airbnb's. For a lot of time, you know Airbnb started with someone just renting out an air mattress in their apartment in San Francisco. Today though, Airbnb has really shifted the game for investors because again like we're saying, we are seeing a shift from just a mom-and-pop run Airbnb unit to more a standard and system set in place.

Where there's a certain level of cleanliness, there is a certain level of experience that a guest might have. The amenities, what you would be seeing there are going to be unlike anything you'd see at a hotel but the quality of the stay might even be better than a hotel because again, it's going to be more personal. It is going to be more customized and again, there is different asset classes, different classes of properties and how you furnishing okay to those properties is going to be probably dependent on that class of properties as well.

[0:19:08.2] WS: Do either of you or both of you have any daily habits that you're disciplined about that have helped you achieve success?

[0:19:17.3] JB: Definitely. I mean personal development is just one of those things that you all constantly have to kind of work on. I'm constantly just reading something at least 30 minutes a day but outside of that, I mean just really trying to stay positive and keeping a great mindset just to make sure that, hey our people, our employees are definitely feeling great about doing their jobs as well as we are doing everything that we can to make things easier for them.

One of my daily habits that I add into that is just exploring new systems, automations and things like that to just try to better or ease a certain pain point that we have within the business.

[0:19:53.9] WS: What's your best source for meeting new investors right now?

[0:20:00.0] JS: I'd say probably the best source right now has just been, you know, kind of forcing ourselves to do it. We started a podcast in the multi-family space just to be able to talk to guys like you Whitney. You know, Jon and I are both IT's. We're both introverts and if we can just close the door and stay inside all day, I think COVID-19 has probably been the best thing for us because it's just like we don't have to go out.

We could stay inside and if we chose to go out, you know that's by choice but for us, the best way for meeting investors has been through podcasting and kind of forcing ourselves to go out there.

[0:20:35.2] WS: What's the number one thing that's contributed to your success?

[0:20:39.3] JB: Definitely it has been I guess word of mouth and performing well for just our clients in general, right? I mean you get one investor that has something and you perform very well. They're going to definitely tell everybody else and that has just kind of propelled just our business in general just because hey, this one person is going to go get us our next person because we're going to make sure we do a great job for him and then it's just the confidence that our investors really have to go out and say, "Hey, okay I'm going to do this building."

It's a little bit out of reach but I can adjust my cap rate just a little bit because I know I'm going to have these guys come in and do this for these certain set of apartments so that's been great.

[0:21:21.5] WS: Awesome. Well guys, how do you like to give back?

[0:21:25.1] JS: I would honestly say it's through content and educating other people. I know Jon and I are both really passionate about teaching others about the space. One of the things I love about podcast like yours Whitney is that you know, you listen to every episode and you just get that little light bulb moment and for me, you know in the space was that light bulb moment when I was listening to Jon and his story about how he scaled his business. I would say that's been the most powerful thing.

[0:21:51.7] JB: To add to that, you know we also are veteran-friendly. We prefer veteran employees first, we kind of have a standard for that and we also give back to veteran charities.

[0:22:03.0] WS: Awesome. Well guys, I'm grateful to have you on the show. Thank you for your time and just being willing to share your expertise around this niche that not all of us are very familiar with but however, like we said, you need to know something. You need to know at least to know you guys, so when we think there's an opportunity there that hey, we could call you and say, "Hey, what does this sound like? Am I just crazy or is this a good opportunity or not?"

Because I don't want to get shiny object syndrome, right? When I can potentially hire somebody like yourself to help me manage something and even manage it much better than I could when it is outside of my niche and so grateful for you just shedding light on that to all the syndicators and operators, passive investors that are listening. Tell them how they can get in touch with you and learn more about you?

[0:22:46.0] JS: I would say the best place that you can get in contact, you can go to shorttermsage.com. You know there, you can learn about short-term rentals. We have a lot of tools, like we said, AirDNA and things like that that we'd link to. If you are looking to just learn about the space, you can also just email us at julian@shorttermsage.com, send me an email. I'm free and happy to help you through your short-term rental journey.

[END OF INTERVIEW]

[0:23:10.4] 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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