**EPISODE 873**

[INTRODUCTION]

**[0:00:00.0] ANNOUNCER** Welcome to the Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

**[0:00:24.4] WS:** This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Jonathan Barr. Welcome to the show, Jonathan.

**[0:00:32.6] JB:** Thank you for having me.

**[0:00:35.0] WS:** Yeah, Jonathan started in acquisitions of single-family, hiring flips and eventually got into ground-up developments and repositioning of multi-family buildings. He is a co-CEO with his brother of JB2 Investments, which is a boutique real estate firm specializing in acquiring, repositioning and stabilizing multi-family property.

They came from a very successful flip business that over a period of 10 years, created 22 million in profits with an average return of 38% over 400 deals. Well, congratulations on that and I want to say too, just the listeners know, we were going to – Jonathan has some thoughts on just like, why holding properties forever should be the goal and what things around that, I'm looking forward to diving into that and many other techniques that he has for how he's meeting so many investors right now.

Jonathan, welcome to the show, give us a little more about maybe your focus right now in real estate business and let's jump in.

 

**[0:01:30.2] JB:** Sure, I can start by giving a little bit more background on me. We started after the last recession. I grew up in a family business so join my parents' business because they had lost a lot of money after the last recession, graduated from college, couldn't find a job in 2008 obviously. And so, I joined the team and we went to the foreclosure auctions where we're buying seven to eight properties a month. It was pretty crazy and there were actually good deals and there were a lot of REO's.

Like you said, we built 22 million dollars in profits in that with average return of 38%. In November, bought my first larger multi-family in Kansas City and then closed three four months ago on the 72-unit behind me that your viewers can't see. We actually did have another 69-unit deal and that's where that fell out, that we had to cancel because the owner misrepresented the square footages of the units by 25%. They wouldn't budge on price, so we canceled.

So, basically where we're at right now is we're looking to buy three, four deals a y ear, we put a lot of our own skin in the game and we raised the rest from others that we've been meeting through different means.

**[0:02:45.2] WS:** Nice. No, I appreciate you elaborating a little bit there. I know you got an extensive background in real estate business. And it's interesting, your family – you grew up in a family of real estate business, right? You mentioned, you went through – maybe the family went through some hard times in 2008 or before or different cycles. Maybe you could speak to that a little bit, how did that affect you wanting to be in real estate and just your business and growth that you've had?

**[0:03:10.0] JB:** Yeah, I mean, it's always been ingrained in me that real estate is the way to wealth, I mean, it's all that I know. My mom's real estate office is basically my daycare so I've always been around it, in high school, I even – after school, to make a little extra money, I would go and help them out, that's how I bought my first car. I just always have been around it and I also – because I saw them take a hit, that's part of the reason the mentality with holding forever because it brings stability and no matter what happens in different recessions, if you have enough assets that are cash flowing and they're being maintained well, you could ride through any storm.

**[0:03:53.2] WS:** Awesome, well, I'd love for us to jump into that, just your – your thought process – the goal is to hold forever. I know there's so many different opinions about that and I would just love to hear that and let's jump in to why holding forever should be the goal?

**[0:04:11.2] JB:** Yeah, I think with my background coming from the flip business, you know, the flips are great. We made good money, sometimes we make a hundred a pop, sometimes more, especially in LA where we're doing higher-end stuff and people really pay you for design and aesthetics and that kind of thing. If you have a property in the Hollywood Hills that's done super nice with amazing view, there's untold value there.

You have to keep on find – we had to find 30, 40 deals a year just to keep the business going and that's exhausting, number one. It's getting tougher and tougher to be able to do that and you make your hundred K, give half of it to the government and then you got to keep on doing that. If you're holding long-term, you know you're not making those big wins but after – if you're invested in 10 different properties and you're making a thousand dollars a month on each property and that's $10,000 a month, that's $120,000 a year.

As you see, maybe they're not huge amounts but they can add up really quick and make a huge impact and then all the tax incentives that you get from that. The one caveat I would say about holding forever is it might not be forever. It might be 27 and a half years that the time period you have depreciation so you may need a 1031 into something at that point to keep enjoying the tax benefits of holding real estate. In the world of syndication and real estate, 27 and a half years is basically forever.

**[0:05:45.2] WS:** Okay, right. No, that's awesome. You know, I hear this often or I hear people talk about like the normal syndication models, five to seven years, I know that varies a lot depending on the type of deal and all those things the listeners hear about and know about.

Finding investors that are willing to say "Okay Jonathan, I'm willing to just stay invested for 27 and a half years. How do you find those people or I guess, tell us about those conversations a little bit, you know, what type of investor is willing to do that?

**[0:06:18.5] JB:** Yeah, I think the thing with that is usually, we're trying to do a refi in year three or four so by then, we're returning most of our capital. The risk capital is for the most part returned. Most people look at it – if I'm getting most of my money back, I don't really care how I'm getting a return on something.

Yeah, it is kind of a mindset shift with certain people and all our blog posts, all the stuff I put out there, being on podcast like this, I talk about why and it attracts that person. Every person, investor that I talk to that has read through our information is like, "I love what you guys are doing, you guys are looking at things completely different than anyone else and I haven't seen anyone talked the way that you guys talked."

It is unique and it makes us stand out because of that. It does also – it can maybe alienate some people that want to make that quick buck in five to seven years, right? It's okay, we only need a handful of people to really continue to do what we're going.

**[0:07:22.5] WS:** Yeah, I would imagine you're getting a lot more repeat investors that like that philosophy, especially after you return capital. What about taking that out over 27 and a half years versus doing a cost segs right away and having that same appreciation in five years?

**[0:07:41.1] JB:** We still do cost segs and obviously it diminishes the depreciation over that long term period but we're hoping with refinances and just increased appreciation and the idea too is to do multiple refinances like in 20 years, you could do three refinances and continue to return capital and deploy it in other places. And we could even do a whole other remodel 15 years into the deal, you know?

**[0:08:10.5] WS:** Right, right.

**[0:08:11.7] JB:** We do a refinance and use half that money to remodel it, bring it up to date and push friends again. I mean, holding forever, sometimes if someone brought us an amazing deal, it doesn't mean we won't look at it, we're not going to say now to some incredible deal either and that we can deploy into maybe a better asset. Because that's another part of it too is as you hold long term, the systems could start to break down, you may need to just sell to get into a better asset. Go from a C to B and then hold longer-term from there.

**[0:08:47.3] WS:** Yeah, of course. Things change, right? We have to be ready to move, no doubt about it and be willing to pivot sometimes. What about the deal structure and just the return structure, typical return structure for a deal that we a replanning to hold forever?

**[0:09:05.1] JB:** Yeah, I too project just in that seven-to-10-year period just because to have some kind of end date to create like some kind of numbers because it's tough to project 20, 30 years, there is so much – there's so much that could happen between that so we do need to project on a seven-to-10-year period.

Usually, when you start to project into a longer period, that IRR starts to become irrelevant so we focus more on the cash-on-cash. We're trying to hit an average of eight to 10% cash-on-cash and that's kind of what we're putting out there but we are also being conservative, especially because of COVID or we're putting higher vacancies, we're bumping up expenses, we're doing that and I tell on the last deal we just did.

We're beating projections by about 85%. Maybe we're being too conservative, I don't know.

**[0:10:01.9] WS:** That's pretty significant, no, that's awesome. Yeah, I just appreciate you sharing that. Are there any differences as far as preferred returns, 70/30 split, those things like we would normally hear in a syndication that maybe might do different in a deal like this?

**[0:10:15.0] JB:** We keep it super simple. Usually, around an 80/20 split, 2% acquisition. One or 2% acquisition fee, one or 2% asset management fee and no waterfalls, nothing like that. Part of their reason is because we're probably putting two to 300k per deal of our own money so it doesn't –

It makes less sense to have waterfalls and all that kind of stuff just keeping it simple, it works.

**[0:10:40.0] WS:** Yeah, if you're heavily invested. Awesome. What about just ways that you are just reducing expenses even, I know during COVID, that's a big focus of a lot of people but maybe just some ways that you're changing the operations to help us think outside the box a little bit to do the same?

**[0:10:56.3] JB:** Yeah, the last deal, the 72-unit in Norman, Oklahoma, which is within the metro of Oklahoma City. That was our value added, was reducing expenses by 25% so we reduce marketing cost by about 60,000 because they had all these Yelp contracts and like weird contracts that are spending five, $6,000 a month on, we brought that down just apartments.com at $300 a month.

We brought down insurance cost, they had a bunch of turns so we haven't had as many turns so that cost came down significantly. Our manager also manages complexes around this one, so we're able to share SaaS right now. I was talking to my regional manager about sharing our manager with another property so we're having a half manager because it's basically stabilized at this point and she's basically bored and has extra time on her hands so she could take on two complexes.

That's going to cut her payroll and even – we're going to cut expenses even more than we thought, just doing that.

**[0:11:59.5] WS:** Wow, what a great idea though, after it stabilized, sharing that manager with another property, even if you gave them a big pay raise, it's still a lot less than paying two managers.

**[0:12:09.3] JB:** Exactly, yup. Then we have the maintenance person as well. One other thing we did too is, there was a pool. There was a pool room that was still there so we're converting that into a studio. Finding little areas we could add units or even if you have large bedrooms, you could turn them into two bedrooms.

Large one bedroom, you can turn them into two bedrooms and add value that way just within the square footage of certain units if the size is there and the layout is correct.

**[0:12:37.1] WS:** Awesome. What about, I was thinking about that too, I wanted to go back just a little bit, you're talking about just sharing the managers and whatnot. Is that, are you all self-managing or a third-party?

**[0:12:48.4] JB:** Third-party but our manager is the operator as well so you kind of come from that owner mindset, which we like and we may even partner with him on future deals as well so we spoke about that but didn't want to partner on the first deal we ever did together, of course.

**[0:13:04.2] WS:** Right. That's awesome. Then, I guess before I shift a little bit, I wanted to ask you, anything else about just making the case for holding forever versus – I'm sure you get questions about that all the time. Anything else about this, why we should really consider holding these deals forever like you are?

**[0:13:25.1] JB:** Yeah, because even if you're in the passive side and you're not doing a lot of work yourself, it still takes time to vet operators look at the deal and the thing about finding the next deal is like, there's always surprises you're not going to anticipate and why instead of finding another deal, why not stay in the same deal that you know really well and you continue to get money out of it by doing refinances so that you do have money that's not just in the deal that you could invest in new deals?

Essentially, you don't have to do as many deals to get the same outcomes. That's kind of the goal. Instead of investing in 50 deals, we could do 25 deals and get the same outcome as doing 50 deals.

**[0:14:14.4] WS:** I think that is a very interesting claim. I think there's some value there too that you're not having to worry about the exiting this deal, how you're going to exit, can you 1031? Can you make that happen that often all those things?

**[0:14:28.9] JB:** There's so many tax consequences to selling, recapture from all the depreciation that you took from the cost seg, it's like, how much money you're going to have left after you pay uncle Sam, after that sale?

**[0:14:40.3] WS:** I wanted to pivot just a little bit too because I know, one of your strengths is like – just thinking outside the box, right? You know, having that edge that way. I just wanted you to be able to elaborate a little bit on that and how you've done that?

**[0:14:53.4] JB:** Yeah, just with everything, you always need to think we're in a competitive business, the syndication world, just real estate in general is super competitive, especially right now as it's faired really well through COVID, everyone's kind of looking at it as kind of a darling asset.

You really need to find ways to differentiate yourself. For example, one way is we're hiring a third-party to contact owners on our behalf directly. Hopefully we get better deals that way and also, just more control of the transaction.

I feel like a lot of times when brokers are involved, they may not convey your message to the seller as well as you might like. If you have a direct contact with the owner, you can get in front of them. You could kind of hash it out between the two of you, instead of having someone between you that might misrepresent what you say or say in a way that doesn't mean what you say. That's one.

And then also, finding creative ways to find investors. For example, we're on – I'm heavily on Twitter and basically, every day I put good value out there and I've had a quite a few people reach out to me that way and the reason why I jumped on Twitter is because another syndicator I know in LA that did business in the same areas that I did, I went to lunch with him and he asked me if I was on Twitter and I was like, "No".

He's like, "Well, I'm most – all my investors come from there, I've raised 20 million dollars off one person I met off Twitter, it's the highest net worth of users out of any of the social media platforms out there."

**[0:16:31.2] WS:** Wow, I want to come back to that because I think there's – I mean everybody listening is saying, "Okay, wait a minute. You know I haven't heard this about Twitter but I hear about this in LinkedIn all the time" right? Yeah, you don't hear that about Twitter but I wanted to back up a little bit and talk about just how you hired a third party to reach out to owners directly. Could you elaborate on that process a little bit?

I mean obviously, if somebody else is reaching out on your behalf. What does that first conversation look like as far as somebody else calling for you and how does that process happen to where they're making that connection with you?

**[0:17:03.9] JB:** Actually, the person we're hiring is kind of putting it out as a service but they're basically six guys cold-calling owners. The main guy was a broker for 20 years kind of like older middle age guy. I mean they have a specific script and they get to know us and they mold our story. They also role-play with each other in conversations, they practice. They've been practicing our whole script and everything with themselves for a couple of weeks.

We've actually made a list of 300 plus target properties that we want to go after and we specifically picked them because we wanted like 1970s and newer. There are certain things that we filtered out in different MSAs and they're just basically going to go after it and the goal is to get one or two deals this way.

**[0:18:00.3] WS:** Nice. Okay, no I want to just help the listener think outside of the box there a little bit because just like you are, maybe you don't need to rely completely on brokers. I mean that is where we found pretty much all of our deals on those relationships. However, that's a great avenue in creating that relationship firsthand so you can like you said, gain more control to transaction. I love that.

But before we run out of time, I wanted you to be able to also elaborate on Twitter and what are you doing on there every day? How are you adding value? What's been the thing that you've done on there that has really attracted the most investors?

**[0:18:32.3] JB:** Yeah, I'll dig into that and I wanted to say one other thing about talking to owners directly. We've sent letters and got in contact that way and believe it or not, texting has been the most successful way to get a hold of people. I think because like a voicemail, they might not even listen to it but a text, if it is a short text they'll at least look at it and if it looks – if it is an interesting text, they might respond or like a lot of times with the iPhone, you could see if they even read it, right?

They have that setting so you could be like, “Oh I know they saw it so I could probably try to get a hold of them in some way” but anyways, so your question about there –

**[0:19:10.9] WS:** Is there a way to mass-text though or are you having to sit there and do that?

**[0:19:15.5] JB:** There is different companies out there that do mass-texting but usually, you could narrow down your list. You can narrow it down to a small amount but that manually doing it to 50 different owners is not that challenging, you know? Then yeah, you just try every means. Texting, calling, letters, email, I mean eventually you’ll get a hold of them, you know? Eventually, you can like nag them enough that they’re going to respond to you.

Anyways with your question on Twitter is every day I even schedule a post sometimes too. It has a – you could schedule a post for later days. If I have a good idea, I’ll just schedule it for later but I talked about any challenges that we’re encountering so that other people don’t have to encounter the same challenges. For example, with the last deal that we just cancelled in due diligence, I find out that it was much smaller than it actually was just based off what the assessor was showing in the diagrams and stuff that they had.

Then I asked the owner and he realized that he messed up but then they don’t want to budge on the price so I cancelled and that was an expensive lesson but I posted kind of a little story about that and probably one of my most responded to post that I’ve ever done, so stuff like that. You could also do little stories, threads where you do a bunch of posts in one and also talking to – I did a post as well of what our experience has been or our successes and people respond to that really well.

Also throwing a couple events on there that I’ve done like Twitter, like Zoom events so that did pretty well but yeah, if I look at my CRM and I look at where all the people I’m talking to are coming from, they’re – I’d say 80% from there.

**[0:21:15.2] WS:** Nice, no I appreciate you sharing that. That’s awesome because I love when people provide other information other than what we normally here, which at the moment has been LinkedIn, LinkedIn, LinkedIn, LinkedIn. But it’s so interesting how Twitter has been most successful for you and maybe we should really consider that. A few final questions Jon, what's been the hardest part about just the syndication process or business for you?

**[0:21:39.5] JB:** I think honestly the raising money has been the most challenge. On a deal behind me, we expected to just raise it from our inner circle because we do know some high-net worth people and a lot of them are in California and just couldn't really get their head around investing in Oklahoma out of state, so that was a challenge. A lot of them wanted to see us do like larger syndicated deal before they invested in the deal. But we knew that we had enough of our own capital to basically do the deal ourselves.

We went into the deal knowing we can get it done regardless of who invested on it or not and now, we're actually pretty happy that we're highly invested in the deal because it is performing really well and we can go back to those people and be like, "Look, you know you didn't invest in this but it's performing 85% better than we projected and you would have made 12% return on your money on the first year."

**[0:22:38.4] WS:** There you go, right? Yeah, and so maybe they'll be in on the next one now for sure. But yeah, I appreciate you just sharing because you know, raising money has been the hardest part and any other ways you've got past that difficulty?

**[0:22:50.4] JB:** Yeah, I mean I think the sooner you start putting yourself out there and being on the social media channels and putting out good content and doing an eBook and all that kind of stuff, the sooner you do that, the better off. And the thing too is like it takes time to foster these relationships. You are not going to have one conversation with someone and they're going to invest with you the next day. It takes months for them to feel comfortable with you to look at the stuff that you're putting out there.

The sooner you start, the more effort that you put into that, the more creative, the more you – the more of like your heart and soul you pour into those. I love to write, my blog posts and I'm starting to get really good feedback on my blog posts, which has been awesome because a lot of times you put stuff out there and you never hear about it. It's nice to actually hear people saying good things and appreciating what you're putting out there in writing.

**[0:23:47.2] WS:** You know shifting gears a little bit, I like to ask every experienced operator like yourself, how do you prepare for a downturn? What do you like to see even as the passive investor listening, I just want them to also know how to make sure their operator is prepared for a downturn but what does that look like for you?

**[0:24:05.2] JB:** Yeah, I mean when we look at every deal, we look at what's our breakeven point like how much we can see or how much economic issues do we need to have before we're even in the red and usually that's probably 30 to 40% on most of our deals. I mean basically the country would have to fall apart completely for us to be in that point or something catastrophic needs to happen and we usually were raising a lot of times all the construction money.

We're not – our loan of cost is usually pretty low, you know it's in that 65, 70% range I would say for the most part. Things have to go really astray. And like I said, we have pretty conservative expense ratios and that kind of stuff so we're able to usually perform a lot better than we thought and so we could absorb some pretty big hits if they were to come.

**[0:25:03.1] WS:** How do you do your reserved budgets?

**[0:25:05.5] JB:** We like to have at least $1,000 a unit. But if it's a bigger hot value-add, probably a couple thousand a unit but the deals we've been getting into now are mostly stabilized and pretty good shaped properties that just have not been operated well. We're going in there and just operating them a lot more efficiently and better and more professionally and like the last deal we ended up cancel on donating market online their rent ledger was all by hand, so stuff like that.

**[0:25:38.8] WS:** Wow. Jon, do you have any predictions for the next six to 12 months just in the real estate market?

**[0:25:46.2] JB:** You know, it's funny. At the beginning of COVID I would have told you things by now we'd be seeing all kinds of deals and everything and quite the opposite is happening. You know deals I was looking at a year ago are more expensive today, you know? Will it continue that way? I think as long as if we get out of COVID or we continue to have stimulus and rates continue to stay super low, it seems like we'll continue to creep up in the single-family space just because I have some experience there.

I am actually helping a friend buy a place and I think there is where things have gone up the most because everyone wants their COVID house and rents are low and inventory is low. As long as everything continues the way it is, I think things will continue to creep up maybe not as much as they did last year but you never know. COVID could take the turn for the worst. There could be some other kind of financial crisis that pops up through this that could really affect us.

It's tough to say but I would welcome some kind of pain because I think you would squeeze some opportunities out there and I got my start during the last recession where were buying things that 50 cents to the dollar and there was all kinds of stuff going on. I don't think we'll ever have that but if we – I think some kind of I guess correction could be healthy but we'll see.

**[0:27:22.5] WS:** Do you have any daily habits that you're disciplined about that have helped you achieve success?

**[0:27:27.0] JB:** I am all about diet and health and I go – one of my favorite thing to do is I have some really nice trails by my house and not every day but at least two, three times a week I'll go and walk and I'll pop in my earphones and listen to – I've listened to your podcast on some of those walks as well or if I have a challenging thing I'm trying to think through, I won't listen to anything and I'll just kind of let my mind ruminate in the back and it's where a lot of my creative ideas come from on those long walks.

Or even after like a vigorous exercise and have those endorphins flowing like in the shower that is when I think of some pretty incredible things and then also just having time with my family and friends and making sure to have that and I think having a really good balance in your life makes you a better investor.

**[0:28:27.9] WS:** What's the number one thing that's contributed to your success?

**[0:28:30.7] JB:** I think we kind of touched on it, just looking at things outside the box, pushing through. A lot of times, negotiations fall apart like in the last minute and finding ways to push through that or get what you want out of the negotiation is the differentiator. Finding those little opportunities and yeah and being tough like this is also a tough business and there's ups and downs and most of the time, I would say it's more down and then eventually you get those good hits that keep you going.

Being able to persevere, I think that's another big one and being able to persevere and have the mental fortitude to be able to do so.

**[0:29:23.0] WS:** How do you like to give back?

**[0:29:25.7] JB:** Right now, actually a lot of college kids reach out to me on Twitter and so jumping on calls with them that want to go down the real estate route and speaking with them to advise them in direction that I wish I would have someone then advise me to go on a certain direction like buying your first property, buying a duplex or trying to go as big as you can at least get to a fourplex. I started with buying duplexes that I eventually 1031'd ten years later into the building the 72-unit behind me.

I am the biggest investor because of a 1031 that I did from a duplex, so all you got to do is start and get that. And also, when you're first starting and buying a duplex or a fourplex, you could do an FHA loan and get in there with very little money down and live there and manage it yourself and really making incredible things happen was just one property.

**[0:30:25.6] WS:** Awesome. Well Jonathan, it's been a pleasure to get to know you. I appreciate you listening to the show but then also being a guest, as well. I mean you just laid out a lot of great tips for us today even thinking through just the buy-and-hold model and you know, we should be considering that. Great ways how you've reduced your expenses. I mean there is a lot of value just in that and just thinking outside the box and then creative ways through Twitter that you found more investors and how you prepare for a downturn, so many things but tell the listeners how they can get in touch with you and learn more about you.

**[0:30:56.1] JB:** Yeah, you could find me on Twitter @jb2investments or email me at jb2investments.com. I also have an eBook on my website, *The Tax Stack Strategy*, just that tax strategies. It's just jb2investments.com/lower like lower taxes.

[END OF INTERVIEW]

**[0:31:15.2] 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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