WS888_ John Stoeber

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0:00:01.5 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.

0:00:24.0 WHITNEY SEWELL: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today our guest is John Stoeber. Thanks for being on the show John.

0:00:32.2 JOHN STOEBER: Whitney. It's great to see you again. Thank you so much for having me on.

0:00:35.6 WS: Yeah. Honored to have you on the show, John, look forward to hearing more about your story and this current deal that you're working on, and it's gonna be a great discussion around that and some things you've learned and are doing. Behind the scenes, I think that a lot of people don't normally think about or don't see, but days before graduating from college, John realized the nine to five world was not a good fit for him, which led him to real estate investing. After doing a couple of smaller deals, John doubled down on his strength, which are financial modeling and crunching numbers to add value to multi-family teams and leverage the operational experience of others, this was only possible through constant branding and networking. John, welcome to the show. Give us a little about maybe that nine to five position that you had and how that gave you skill, and it sounds like it helped you help to prepare you to have some very valuable skills to enter into the real estate business.

0:01:25.8 JS: Yeah, it has... And don't get me wrong, I'm actually very appreciated from my 9 to 5. I still work there, but I was kind of bread for the 9 to 5 W2 world ever since I can remember, like, talking and walking, it's always been go to school, get a good job, work hard and retire. And right before I graduated from college, I'd spent my entire last semester looking for a job, I finally got the job offer, and looking over how much money I'm gonna make and really how much vacation time I was gonna have off every year to go traveling and skiing and having fun with my friends, and I was just like, This isn't gonna work. For my lifestyle, I'm not gonna have enough days off and not gonna frankly make enough money to do the things I wanna do in life, and that ultimately led me on a journey to achieve passive income and financial independence. And I looked at a couple of options, I looked at dividend stocks, bonds, CDs, and none of them just produced the type of income that I needed. I would need a million dollars in the bank, which was gonna take a long time to save up, and I've kind of stumbled on real estate investing, and I , like, came to a bigger pockets website, and then I ended up buying one of Brandon Turner's books, read it.

0:02:34.0 JS: And I kind of caught the bug. Right then I was like, This is what I'm gonna do. I'm gonna be a real estate investor and I'm gonna achieve financial independence before I'm 30 years old, I was 23 at the time, and so that kind of just led me down the real estate rabbit hole or at a couple of smaller deals before transitioning into the multi-family space.

0:02:53.4 WS: So you were 23 and you were determined to gain financial independence by the time you were 30. Were there some steps there you put in place or anything that you learned at that point that would help a listener to accomplish that same thing?

0:03:06.4 JS: At the time I was just soaking up as much knowledge as I could, I didn't know building operations, how to finance properties, really anything you need to be successful in this business. And it was just reading tons and tons of books and listening to tons and tons of podcasts, trying to figure out how are people being successful in this business right now, plus views in the podcast, it gives you an opportunity to connect with people because often then, they reach out to me on Facebook, Here's my cell a number, this is my email address, and this is how you contact me. And then you can start to develop that Rolodex.

0:03:41.1 WS: For sure. No, that's awesome. Anything looking back now that would have helped you to achieve it faster or... That you wish you had done differently?

0:03:48.8 JS: Honestly, there's nothing that I can actually think of. I think everything that happened led me to where I am today and all the mistakes I made were just learning lessons that I can build on for the future.

0:03:59.5 WS: Nice. Well, yeah, I want us to jump right into this current deal, and I want us to talk a little about this numerous other things we'll talk about, but ultimately this deal... There's some things that we talked about before we started recording that I think we'll add a lot of value to the listener as well. Maybe give us a minute or two also in getting to this deal. Had you done a deal before, what were the deals before that you had worked on and getting up to where you're at now?

0:04:20.9 JS: So I had done two deals before and they were very small deals, my first was just like a two-unit house hack that I bought with FHA financing. For those who don't know, house hacking is when you buy a multi-unit or even a big single family and you rent it out the other units or other bedrooms while living it in yourself, and you essentially live for free, it's a great way to get started. It's very low money down because you get under-occupied loans and you're actually there at the property while you're learning how to be a landlord. So that was overall really good experience, and then I did a pretty big flip after that, 'cause I wanted to learn how to rehab properties, and that was very, very painful for me because I have no background with renovations, rehab and construction. Well, I do now, I have some experience, but at the time I had none... So that was just a really long drawn out process, and that was actually that flip that was like, I'm gonna go do multi-family because I can use my strengths of crunching numbers and basically being a glorified spreadsheet jockey.

0:05:20.8 JS: And the deals are big enough where I can have partners who they can bring other skill sets such as the construction management and the operational experience, if you got a 30,000 dollar flip and you gotta bring in two partners, you're making 10 grand each, but if you have a big multi-family deal where there's potentially hundreds of thousands or even millions of dollars at the end. Now, when you start a split of three or four ways, the profits, they're still pretty big for everyone at the end of the day...

0:05:47.7 WS: Yeah, you tried that flip and from what you said, it didn't sound like it went very well or is very painful, you said, and so learning from that, it sounds like you then focused on what was in your house. What you were really good at, and that was spreadsheets, crunching numbers, financial management. Is that accurate?

0:06:04.0 JS: Yeah, that's exactly what happened.

0:06:05.6 WS: I tell people this often real estates, such a team sport, especially in commercial real estate, we were doing very large deals, the fastest way to get somewhere, I find... And it was for me, personally, it wasn't to try to master everything or to try to do every part of the business that just couldn't imagine without our entire team, but, you know, it was for me, it was like focusing on what I'm good at and finding people that were really good at those other things. That helped us to move so much faster, it sounds like what you did as well...

0:06:32.1 JS: Yeah. I spent probably one to two years really learning how to underwrite deals so I could double down on that skill set...

0:06:38.2 WS: Nice. You already had a skill set there, and then you just kept pushing to be the best at that thing that you could possibly be, and that adds a ton of value to other people, or it gives you the ability to do that. Okay, so now let's move into the current deal, what is that? Where is it? What size is it? What's going on there?

0:06:54.1 JS: Yes, so we have a pretty heavy value add going on right now in Little Rock, Arkansas. It's a 34-unit portfolio, made out… It's an 18-unit property and 16-unit property, and when we bought this deal, I think it was like 35% economically occupied. We bought it in the middle of covid, so it was this eviction moratorium, getting tenants out has been hard, but what I think is really interesting about this deal, and what I think it had a lot of value is because the occupancy was so low when we bought it... And we normalized our expenses, the net operating Income was actually negative before you even put debt on the property, it was losing money, and I think a lot of people, especially if they're just learning how to analyze deals, they're gonna go, Okay, that operating incomes negative. cap, right... in the market is like 7%. Well, whom the seller should actually be paying me for the property if we take that operating income, and it doesn't really work like that because the land and the actual physical building, there were something... Think of a distress single-family house that you're gonna do a burial on, let's say it's worth in its current condition, it may be worth $0, but if you put 60K into it, it might be worth 200.

0:08:04.5 JS: Some investor is gonna be able to pay 90 to 100 grand for that or whatever it is, more me than $0 because of what the property is gonna be worth at the end of the day. Whereas if this was commercially you going, Oh, well, produces no income... You know the seller should be paying me...

0:08:20.0 WS: Yeah. Write an offer like that. Right?

0:08:22.0 JS: Yeah. Okay, you're gonna give me 50,000 dollars, and I'll take this property off your hands... No, no one's gonna agree to that, but if you view it like a flip or a burr on a single family rental, which is what we did on a per unit basis, you can start to see how you can actually pay money for some of these deals. So like in the Little Rock... Yes, negative net operating income on day one, but we bought it for all in and it was 800,000, it's like 23.5K per door, and if we put five to 10 grand for a unit into renovations, those units are renting for 650-700 now, so by the time it's stabilized, those units are gonna be worth in their sales comps, like over 50K for the one property and over 40K for the other, so it's like, Okay, 23K, say 10k of rehab, there's gonna be some holding cost reserves, things of that nature, so let's say you're all into these units for 35K.

0:09:17.1 JS: Well, if they sell for 50K, you just made a 15,000 dollar spread on, Frankly, what's a low cost per unit, it's a huge margin, and so if you're just gonna take that, I look at it as a bur, it's worth 50, we're in for 35. If we can refinance at 75% LTV, we're gonna pull out all of the money that we put in into the deal and then probably some more, or we just sell it and we capture that 15K spread.

0:09:41.9 WS: Okay, taking a mention nights there. No, that sounds awesome. Especially going to 23K per door, you're gonna add 10, let's say you even added 12, and then you could sell a 50K per door. You're doing well. How do you normally... And you just explained a lot of it, but maybe on go a little more in depth and like just the mindset of valuing the flip mentality or bur versus cap rate, I think when you get in a property the size, it's hard to think through that are hard to even speak into the broker about how we're valuing that property like that.

0:10:09.5 JS: Also, I think the more distress the property gets, the less important to cap rate gets. So if you're gonna buy something turn key or very, very light value in, then you're probably gonna look more at the market cap rate and see what type of premium or what to a discount you're buying if it's turnkey. There's just not a lot of value for you to add where you can raise net operating income, but as the property becomes more of a value-add deal, if it's a six-cap market, maybe I can buy it at a four and a half cap. Raise it offering and come and get it up to an eight cap and then I can sell it for 6, and that's how you end up buying things for like you're buying for 20k door, putting 10K in. And you're selling it for 50 and you get into this really, really heavy stuff where it's distressed, I mean, the cap rate, it goes out the window, 'cause sometimes these properties, they will be losing money, and that's where looking at things on a cost per unit basis becomes really helpful. And look at the sales comps in the market, so like in our sales comps were going for over 50K a door, so okay, seller's asking for 23.5 K, we're gonna have to put 10K into it.

0:11:17.1 JS: Just think of it like that flip, so renovation plus acquisition, we're in for a 33K, ARV is 50K. That's like 66% of ARV. And if you're gonna go off the flipping rule, it should be ARV is 70% of the purchase price minus the renovations, and it's a little different from multi-family because you have tenants in there that pay a lot of your holding cost, but on a very high level, it's kind of the same process.

0:11:42.5 WS: And how did you find this property?

0:11:43.9 JS: Actually, one of the partners I'm working with on the deal, she found it and we developed a pretty good relationship, so I just ended up joining her joint venture.

0:11:51.6 WS: Nice. So what's the seller's mentality? I mean like, why are they selling? Or do you know?

0:11:57.0 JS: So I actually didn't have too much interaction with the seller, but from what I can tell, this was just like a mom and pop landlord who was completely mis-managing the property, they weren't doing any sort of tenant screening in there, so there was super high delinquency and they were letting the property go, so my understanding of this is they just wanted out of the deal, and because it was so distressed there weren't it on a buyers that could come in and we're actually interested in buying it.

0:12:23.8 WS: Yeah. And besides the fact that they're losing money, at least at this point anyway, and how did you get financing on a property like that?

0:12:30.0 JS: The seller actually had to finance it through a Master Lease Option because...

0:12:33.0 WS: Wow.

0:12:34.0 JS: Yeah, income was so low that banks didn't wanna touch it.

0:12:38.1 WS: Interesting. So you did a Master Lease Option. Tell me the inner workings of that or terms of that Master Lease Option and what that looks like for this property...

0:12:46.3 JS: So Master Lease Option, the way I understand it, it's a form of seller financing, like true seller financing is when the seller owns a property free and clear, so it's worth 100k and they're gonna finance 75,000 dollars of it. On this property, it was a little different because the seller had a loan on it, so we couldn't just get seller financing because the bank and the title company would not have allowed it because the banks in first position. So where the Master Lease Option comes in or you might hear it called a wrap mortgages, we have an agreement with the seller where we have an amortization schedule with him, and then we're paying the seller's bank... It's called a rat because we're going around the seller and paying their mortgage for them to their lender, but then we have our own principal and interest schedule with the seller, so when we actually do get a refinance or we do go to sell it, they're gonna take the principle that we've paid off and subtract it from the loan balance that we have with them...

0:13:45.9 WS: Yes… So it's interesting, I don't know if too many people have successfully done a Master Lease Option, so congratualtions you to finding a deal where that would work and making it happen, and so ultimately you're all gonna add value to this property, right. You're gonna make sure the loans paid, you're gonna do that seller such a favor there and him make a little money potentially along the way as well, but then you get first option to buy it, right, you do a re-fi and then it's your... You buy from him and then he makes a little money then too, so it's a win-win, he gets out from under the management, you improve the property and then it's yours. Right. Eventually, tell me about selling that deal to investors, how much are you all raising from investors, and then how do you think through these numbers and explain something like a Master Lease Option to your investors?

0:14:26.8 JS: So that's a really good point in question you bring up Whitney, 'cause I think on the surface, everyone loves seller financing, everyone wants to get a seller finance deal. The thing about seller financing is if it's a big rehab, you get no rehab costs in your loan, it's just the purchase price, whereas if you get a hard money loan or a bridge loan, they're funding a lot, sometimes all of your renovation cost, so it brings your raise amount down a lot. So this is seller financing, which means we had to go... We're raising money for our rehab and we have lenders that are lending out money at a fixed interest rate, and pretty much the way we're pitching it to them is, Okay, there's a bunch of non-performing units in this property, we bought them for 23.5 K-door, we need your 10,000 dollars. Mr. Lender is gonna probably rehab two units. Right now, those two units aren't performing, once we get them up, renovated and rented, two units are gonna produce 1,300 dollars of income for us a month, and there's some variable expenses like the property management fee, but pretty much that rent is gonna go straight to our bottom lines and back into our pockets. So if you're gonna lend us 10 grand, let's say that it's a 12%, that is going to be 1% a month, which is 100 bucks a month.

0:15:49.8 JS: Well, we just generated an extra 12 to 1,300 dollars of income off of your loan, and we only have to pay you 100 bucks, so we can easily do that, and we're still gonna have more cash flow for ourselves and to pay our expenses. So paying your interest, that's not gonna be an issue with this loan. The other thing is, okay, so you just lent us the 10,000 dollars, and now we're all into this unit for... If it's a 10 grand renovation per unit, we're in it for 33K... Well, at ARV per unit is now 50K, so if we go to sell it, we've generated more than enough equity to pay you off, and even if we go to refinance it, 75% of 50K is 37.5k, we're all into the unit for a most 35... So even with a refi, you're not capturing all of the equity, they're still more than enough to pay you back.

0:16:43.0 WS: Nice, so you mentioned that numerous times talking about that investor... So are they debt investors... Are the equity investors?
0:16:49.0 JS: These are debt investors. It's private lenders.

0:16:51.0 WS: Okay, so private lenders, they're debt investors, they're not an equity investor, so you'll do a re-fi, you'll pay them off and then it'll be your deal...

0:16:57.0 JS: Right, exactly.

0:16:58.0 WS: And then what is the business plan... I go a little further into, like how long do you plan to hold this, do you plan to do that type of refi or sale, you know, eventually, or how long do you expect the renovation and stabilization to take?

0:17:10.1 JS: We have a couple of business plans and a couple exit strategies right now, I say we're in what's called Phase One. We're getting rid of all the non-paying tenants, rehabbing units and then leasing them up, and that is taking a little longer than you would ideally want because of covid and the eviction moratorium, but once we get property to a point where the net operating income is actually high enough to go get financing, we have a decision to make, and we're very close to that number right now, by the way. But at that point, we have a decision to make, are we gonna go refi, probably into a construction loan so we can finish off the renovation, and then while they're doing another refinance or it'll just convert to permanent debt, and then we'll probably hold it for five years or once we get the occupancy high enough to where someone else can get financing, do we just flip it, get these two properties on our track record and go to the next deal. So what I'm thinking of when I have to make that decision is, how is the area? How is the market? And how is the property? So if these were in A class areas, and let's say we're getting B-Class tenants, that's the type of property I'd wanna hold on to for a really long time, because the cash flows probably gonna be good, and there's a very good chance of getting market appreciation. also, it's like over 100 units.

0:18:30.9 JS: That's a consideration too, because you get full-time staff and I think it would become a lot more passive, so if this deal is a little smaller, it's not in an A location, and it's definitely more like C class residents, so that's the type of deal where I think, Do I really wanna own this long term or do I wanna take my equity back and put it into something that's like a B-class property and in an area where I can just let it sit. And in this case, I don't know if the market appreciation is gonna be there because it's smaller, it could definitely be more management-intensive and take my time away from looking for other deals, just doing other things I wanna do, and then it's an older property too. So I think there's definitely gonna be CAPEX, higher repairs and maintenance going forward, so for something like this, I would definitely lean more towards the flip, go buy something better, but it's hard to argue with 700 rents that you're all into for 35K door too.

0:19:27.0 WS: John, with what even doing this deal and other deals and... Or you know about underwriting. What do you foresee say, happening or predict to happen just in the real estate market over the next six to 12 months, and how does that affect your all's business model?

0:19:38.6 JS: You know, I think covid is still gonna be very impactful. We're already seeing, especially in our city properties, a lot of the tenants we inherited, they don't have jobs like they're unemployed, and even the ones that we've screened, it's a little nerve-racking because if you're gonna see property, they're often in the service industry, so they're going to work, they're at risk of catching covid and they could potentially bring it back to your complex and spread it to other people. So that's a little nerve-wracking. As far as what's gonna happen in the next nine months, I think we're still gonna see paying at least until they stop extending this eviction moratorium, our rehabs are taken longer, so is our reset process, but I think if you can make it through that multi-family is still a great asset class. You can still get really high returns for a pretty good level of risk, so if you have properties, I'd just say You might be... You just try to hold on and weather the storm because I think there’s sunshine at the end of this.

0:20:34.6 JS: Is there a way that you all were prepared to weather a storm that we could also use to be prepared?

0:19:40.0 JS: Well, I know what we're doing now on all of our new market rate leases... We’re signing month-to-month, and then for the inherited tenants, most of them were already on month-to-month, so if they're not paying, we can still just not renew their lease and we can try to get them out for a tenant hold over.

0:20:57.4 JS: I think looking for ways to get rid of non-paying tenants through breach of lease instead of failure to pay rent, at least for us, that's been our best way to get people out of there, like this eviction moratorium, it only applies to people who aren't paying rent, so if you've got a violent resident or someone who's breaking rules, you can still evict them... And we've had some success with that.

0:21:20.0 WS: Interesting, so that's a great point to bring up. What does that eviction moratorium affect exactly? It doesn't mean you just can't evict anyone for anything. Right?

0:21:29.6 WS: That's a very valuable point, John. What are daily habits do you have or that you could share with us that you are disciplined about that have helped you achieve success?

0:21:38.2 JS: I'm pretty diligent about time blocking, so I need to get stuff done, it's on my calendar and my powers and where it's getting done at that time, and one thing I've done for a long time as I just exercise every day, which it's not everyone's thing for me, I feel like it makes my mind really clear, and after a day at the office, it gives me a chance to take 30, 60 minutes just to take a break, recharge, and at the end of that work out, I'm usually feeling great and I'm ready to get back to it.

0:22:03.9 WS: What's your best source for meeting new investors right now, probably social media.

0:22:07.9 JS: Social media can be great. You can get an in-person meet-up with 50 people, or if you have a big social media platform, you can reach thousands of people at one time, and then it's kind of like the beginning of your investor funnel, so definitely social media.

0:22:21.0 WS: What's the number one thing that's contributed to your success?

0:22:23.0 JS: No, I think it's just discipline. For me, when I put my mind to something, I just go all out and then make a commitment, Yeah.. disciplined.

0:22:30.0 WS: And how do you like to give back?

0:22:31.0 JS: We like to create our own content and we have our own podcast and just leverage the success and knowledge of other experts and then sharing that knowledge with others.

0:22:39.2 WS: Awesome, well, John, a pleasure to get to know you a little better and really hear just details about this deal, how you valued it, but then also just a cap rate versus just like a flip mentality or bur strategy, and just going through those details of a difficult property or which you all are able to make it happen, and even did the Master Lease Option, which you don't hear very often. But I think it's a great tool to have in your tool belt. Just in case you find that seller that's in the situation like you had, and you can go in there and perform and add value to not only him, but especially to yourself and be able to purchase a property through that.

0:23:10.7 WS: I mean, so congratulations to you and your group in just making that happen and utilizing something like that, so tell the listeners how they get in touch with you and learn more about you.
0:23:18.6 JS: So I'm pretty active on Facebook. So reach out to me at John Stoeber. Send me a message, friend requests. I'll get back to you as soon as I can. And then we have our own podcast called the Millennials and Multi-family Podcast, so if you wanna learn more about us and our guests, you can check that out, and we have a free book called How to analyze big apartment buildings and make them feel small. It's kinda just like underwriting 101, and you can get a free copy of that at bit.ly/underwritingebook.

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