EPISODE 1004

[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]

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Whitney Sewell: This is your daily real estate syndication show. I'm your host, Whitney Sewell. It's that time of the week again where my partner Sam Rust takes over the show and interviews our guest. I hope you enjoy the show.

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Sam Rust: This is your daily real estate syndication show. I'm your host, Sam Rust. Today we are joined by Jay Tenenbaum.

Jay is with Scottsdale Real Estate Investments and has acquired over 450 distressed mortgage notes and real property in more than 30 states in his real estate career. Jay has a background in the legal field as well. We're excited to have him on the show. Thanks for joining us, Jay.

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Jay Tenenbaum: Thank you, Sam. Well, pleased to be here.

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SR: Excellent. Jay, I wonder if maybe we could start with how you got into mortgage notes. As we're chatting before the show, you mentioned you'd been in the legal field working in debt collection for a number of years and then you transitioned into mortgage notes, what was that journey like? How are you where you are today?

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JT: Sure. So first of all, I'd like to say I've been in debt all my life - just not personally, so I was a debt attorney for 20 years. 2009 and 2012 started investing in buying judgment liens in California and executing our real property, and then late 2013 got went...you know, got exposed to, you know, mortgage note investing, and it was an easy transition. Just know the debt instrument, you know, different debt instrument and made that transition very swiftly.

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SR: Oh, that's excellent. You guys focus on secondary markets, I'm curious why you guys have picked those markets? What you would call a secondary market? And why that works for you and your team?

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JT: Sure. So secondary markets are...first of all, two fold it is. One is, we are buying distressed mortgage notes. Okay, for example, Bank of America, Morgan...JP Morgan Chase whatever, which in the loan do you back whenever, right, and then you sell it, they sell it on the market five minutes later. And they sell it some hedge fund who strokes at 78-figured check which then sells to another hedge fund for $95 more, and ultimately trickles down to smaller ventures such as ourselves, where up 'til now the loan is just been in default and nobody's talk to borrow, nobody's tryin' to foreclosure, nobody's doing anything, and so we pick it up. We go like, I say like star track, will...no one's got them before, well actually work it though, whether we're speaking to the borrower or sort of foreclosure.

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SR: So you guys specialized in non-performing notes, is that correct?

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JT: Correct, because for starters...well, because of my background I can, and in the very beginning, buying you know, low, what we call low balance assets, meaning the houses in those areas were worth $50,000 give or take, right? We're buying these loans like you know, 5, 10,000 dollars, and you're having conversations with borrower and all of a sudden, you know, you're making a $3 a month, you know, low modification payment. Your return on investment's awesome, right? And so if you think about it, if I'm buying a note for 10 grand, and if you get

$300 payment, I'm getting a 36% return annually, right? I've turned that non-performing loan into a value add performing loan, right. Now, the performing market probably paying 25, 30,000 dollars for that or more, so my return is not its great. I'm paying the premium for the gains and cash flow. You know, because my background it's easy for me to do it.

Going back to what you said before with regards to secondary markets, I also establish my forte where I lived in...when I start investing I lived in California, I moved here in Arizona about four years ago, I've never bought anything whether where I live, whether it's California or Arizona. So I always learn how to buy stuff out of state because in the Midwest and South primarily that's where the better opportunities exist - you're in judicial foreclosure states so the process takes longer, but ultimately you get your better discount because of that. You know California, you know Arizona are either trust states, mortgage foreclosure states five minutes, and for that you're gaining premium for.

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SR: Yeah. And so, what are the risks? And what's the typical investor profile? You guys work with people from around the country, you know, there's pros and cons, I mean you kinda outline there's better yield in a non-performing notes, are you guys taking strictly first position notes? And if so, how do you ameliorate the risk? If you're taking second position, you know, it can take a lot longer to online, say you can't get a note performing, maybe you have to go to that foreclosure process, how long does it take to actually realize a gain?

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JT: Sure. So, first of all a couple things. Number one, I only invest in first, there are various reasons why not second, one is better being first than second. But second is just the marketplace was atrocious. When I first started the sellers in the industry weren't that reputable, plus there was much, much, much more risk involve in second, you gotta admit it's deeper discounts but there was so much more risk, risking involve. With regards to buying first, the foreclosure process is in judicial states takes anywhere from, could be six months to a year but thing is, the key is you want to minimize your risk, meaning we started out buying pools of assets, like I'll buy three, four, five, ten, the largest pool ever bought was like 40 assets at one point at a time. So you minimize your risk that way because the diversification you achieve. Number one...so that's one of the reasons that we diversify, buying first and buying then diversifying. I bought pools before where I made one phone call and started generate cash, I've

done it so many times, a couple of different pools where I got them the majority, you know, very, very quickly. We bought 21 seller finance notes in September of 2018 for $85,000 total, right, it was a hedge fund that I bought about a 120 assets from earlier, they were getting out the very last, last, little bit last. And almost immediately reached out to...got about 13 of those 15, 14 performing immediately spinning off about five grand a month, almost immediately right out the door. So yeah, you can generate the cash flow.

Now, I also, if I may add, you guys, your back stop. What I mean by that is when the borrower can't get out of their own, you have to start the foreclosure. I started aggressively, only the back stops. If I'm talking to you and your talking service everything else, the loan just can continuously fall and my ROI goes down, right. So as I set the backstop, now my action creates your action.

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SR: I know in the multifamily world which is where we play a little bit more, if we as the landlord don't hold up our end of the lease in holding the tenant to the terms of the lease, so it's beyond just "Hey, we didn’t provide a clean place of habitation," but if we don't initiate eviction proceedings within a certain window unless there's extenuating circumstances like the moratorium, then we're in default of the lease or breaking the lease and we can't enforce its provisions on the tenants. Is it kind of that same methodology for foreclosures?

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JT: Well other than moratoriums, is really the investor, the lenders call, right. When you're buying notes you are...you step in the shoes of a lender. You are the lender per se, it's your call. Those who sit around and don't do it, I think you're just doing disservice because if the loan's not performing, you're not foreclosing, what are you doing? The loan doesn't automatically start generating cash flow in the shelf, right, it just has got to do something. And I know I've talked to certain investors like "Well, let's spend money to do it, you know, buy them over two grand." Okay, but it's not doing anything. It's only two grand, you risk to minimize your investment style huge, but it's not doing anything. She put a little money into it, you start foreclosure and get the money back, because most states the foreclosure of these are recoverable, and now you generate some reaction by borrower and you know, who knows? They just like, you know, when a tenant just runs and jumps up and paste the past two rent, right, though you have those kind of tenants. You know, you gotta almost threaten eviction over or tenement eviction before they went up and pay, well that's same thing happens here.

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SR: Makes a lot of sense. Coming into managing all these properties, I mean you're in Phoenix, you're acquiring these properties around the country primarily said in the Midwest and in the south, what are some systems that you put in place? What are some tricks that maybe our audience could use? There's a lot of folks that are investing out of state it might not be in notes, specifically but what has been key to your success in managing these assets?

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JT: The key to that success is building a strong team in those markets. I've kissed a few frogs along the way, you know, finding the right team members, right. I found on balance trying to find the national vendors, you know, national property preservation guys, you know, national this, national that, just don't really work out because all they're doing is farming gets a lot of affiliate anyway. You might as well go directly engage local affiliate in a market.

Your team building usually starts with finding that good realtor who likes working with investors, who has the connections or their own contracting crew already. Secondarily, even if you're not even buying rentals you...a property manager knows everybody anyway, and that pretty much afford you...there's routine starts. Now with Scottsdale we've grown, we've added team members to kind of oversee that, like which is Apple we have our own project manager now in house to deal with the local building local teams himself, right. It just takes the burden off of us, although we've got some very strong team and some very strong here in New Orleans, Pittsburgh, you know, have...we got extremely sound team members.

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SR: How do you find a good team member that you're going to actually hire? So there's the step of building a collaborative team property management, all those pieces that you alluded to, certainly crucial, but when you scale to the point of actually bringing on board your own employees, you're finding that right person can really be a 10 x multiple in your business or it can be a huge drag, how you guys going about finding that right person for those shoes?

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JT: Good question. So a couple things, number one when I manage my law practice I had 45 handle employees, managing employees almost hit me, it actually did me and I swear that one other employee that's my life. As we've learned, as we've grown our business and decided we had to scale...we've been actually fortunate, my business partner and I are actively leaders in a, what started out as a local real estate community here in Phoenix, just now with zoom gone, you know, global right, and so we've brought in team members who are other members of our community already. So we already know them, we've already seen what they can do and what have you, that's the pool that were swimming in to grow our team.

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SR: I noticed on LinkedIn, Jay that you're a member or a co-chair of the Investors Community and Eliances - spelled e-l-i-a-n-c-e-s, is that part of the environment that you're talking about putting yourself in those right circles to observe people work with people, and then pick those high performers?

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JT: No, but it's comical but there is a connection. So when I moved here to Phoenix four years ago, I was seeking community and I saw it, I'm sure you've seen them, you know, the bandit signs out there, you know, "Hey, you know, real estate mentor, six trainee. Earn while you learn" all this other stuff. And I knew what it was from California because I knew what it was, buddies of mine we're doing it, but they weren't very strong there, but when it came out here I knew exactly what it was and I knew that in seeking community, that if I got into...had a conversation with the leaders that community said look real estate communities, real estate programs live and die by the ability of the members and the students be able to do deals. If you can't find a deal, you disengage and you move, you leave, right. And so I came to this community going "Hey, I can read deal flow. I've got connection with banks, hedge funds with regards my note experience, I can bring deal flow in the community if that's something that you guys are interested in." As it turned out, it's grown exponentially from where it started back in 2017, but the leader of that group at the time that got involved with the real estate community called Synergy, and then there was a falling out among their leadership and it became Alliance Phoenix with an A. But the leader of that community is also a member of Eliances - it's an entrepreneurial community. So he invited me there and so now I'm a member of both. We always have the joke of "Zack why did you rename your real estate community Alliances? Because now there's a lot of crossover people who are both wonderful communities like are you talking about Alliances with an A or Alliances with an E?" And it gets confusing right, but that has opened up my world.

So basically my world in a nutshell, well pre-pandemic was, you know, either doing things inside the real estate community and do things inside the entrepreneur group right. Made substantial connections, substantial friendships, it's, you know, it goes on and on. In fact, our software REIBLADE is a product of our developer partner is a person that I met inside our entrepreneur group.

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SR: That's really cool. Thanks for going into a little bit of a backstory there. REIBLADE real estate software, now you've got me curious Jay, could you go into a little bit depth what you've done there and how you guys utilize that tool?

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JT: So in the pandemic, we all learned how that we had to pivot right, so we have a little bit of downtime so it was something that we really pivot in the pandemic. It was something that was created, the birth of it was started with my business partner and our tech partner, they've been talking about it for a month prior, but I like to say, you know, there's the old woman who lived in the shoe, she had so many children, she didn't know what to do. Well we got on such a buying frenzy from the time that we started...my partner, I started to work together in September of '18 that we had so many assets under management, whatever, you know, the spreadsheets and google drive and outlook and all this, I mean, you know, it just was chaotic. And I gotta tell you while it was his brainchild, it was something that doesn't exist, least from an investor of our caliber of our size, is never existed in our space. We'll take a step back, so in my law practice, we had a terrific software that managed our 6,000 open files - our paralegals could run files, we currently are collectors, our accounting staff, you know, and all that. Right, and when I got in the note space I said "Okay, what kind of program is available to those folks for this?" There wasn't one, it'll never was one right, now there is one.

The brainchild was more of a product of when you're working with investors, right writing your quarterly reports and all that you wanted a better system. That's where it started. Right, basically, designing a portal where they can look in and see their own assets. What do we create it? Well, it'll create your analytics on a diet, it'll create document management, it'll help you raise capital through creating, you know, your performance not only and create prospectuses. It's got, you know, a variety of other features that is for anybody not just space. Single family, multi family funds, it's for a friend, nothing else in our skill. We tried, you know, the Apple iOS and other things like that, they're too big, too expensive, or just not fitting what we want. We're not the huge giant, we're not a servicer, we're not a hedge fund, it will not, you know, multi-million dollar fund, those kind of programs out there for them, not for us.

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SR: Yeah, having a targeted program like that it serves your niche really well and when you're creating it you can give it all the widgets you need, but it's not bloated trying to serve everybody like an app folio. We've explored some of those platforms and we have a similar tool on the multifamily side that's designed just for syndicators of large multifamily projects. Our needs are different than your needs on the note side, but having a tool like that is just paramount to success, particularly as you start to scale and start to deal with a decent number of investors, they're going to need reporting, they're going to need a portal where they can look at their investments and track their tax documents - all the behind the scenes work that makes a big difference.

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JT: And even with syndicators, I mean there's features of our system of our program that cater to those, with you guys as well. I mean, it started out as sort of, you would think sort of separate right, you've got different needs than we do, but we all have capital raising needs, right. I think our program probably fits that niche more than anything else and other features that do dovetail.

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SR: How are you increasing deal flow these days, Jay? I know that finding notes is a little different than finding whether it's single family residences, fix and flips or even multifamily but some of the things cross those boundaries, what are you doing to increase your flow today?

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JT: Fortunately, knock on wood, being very opportunistic which actually started in the pandemic. Because the evolution was it but from 2013 to 2017, I was buying almost exclusively notes. By 2017 note pricing started getting a little too high, too many inexperience investors where the marketplace overpaying for stuff. So we started buying property, we started buying property off auction.com, things like that. Right, and then around...we're buying, you know,

rental properties in Cleveland at the MLS since 2019 right, then the pandemic hits. And now we've got, you know, the market going crazy. So we actually got end up, fortunately going back to one of our note sellers that I done this with over the course of years and we started finding a niche of buying reverse mortgages in late stage foreclosure. So now we're picking up these mortgages, they're going to sell relatively quick, you're getting them at really attractive discount. And so we stayed with that, we've been buying from a variety of specific sources, kind of on a form flow. We're getting stuff, you know, monthly, it takes up down on a continual basis. And that's spawned into...we still diversify, buy property. I mean, in building my team in Pittsburgh I call randomly, there's a strategic purpose and how I call a real...find a team member, a realtor in the market. But as I found her on a note that I owned this buying in Pittsburgh, she became the perfect realtor. The property that I found her on was actually one of her rentals, so she's a property manager, and a retail realtor and a wholesaler and a project manager and an investor. So we've done 14 unit through her this week, we're doing like we resold a fix and flip back to more on the market go up, going on the market this week. We've done like nine deals with her since January just for the simple note they do.

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SR: You mentioned you have a process when you're going into a market to find a new realtor, what does that look like? How do you narrow down to find that person who, I mean you just described this realtor in Pittsburgh, she sounds like the perfect leatherman that can put on an investor hat or put on a wholesaler hat or a realtor hat, and you need somebody like that who doesn't just think through a traditional real estate agent lens, how do you go about finding that person?

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JT: Finding's easy part. I mean you're actually, instead of going on Zillow and just calling a realtor who's paid to be there, you actually find, you know, from other complex that are those who have bought and sold in the area near your house, because they know the market, right, but that's only one piece of it. She's only a retail type realtor, you know, that's not my fit right, you got to want to work with investors, you gotta like to work with investors, you have to have that knowledge and experience. A retail realtor doesn't work.

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SR: You know the landscape over the last two years is changing, it's always shifting in real

estate. We shouldn't be surprised when the market takes the twists and turns, but I don't think anybody had pandemic at the top of their list for 2020. Moving forward next 12, 24 months, what do you see that excites you and worries you about the real estate market, Jay?

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JT: A good question. I've always looked at life as a business, I guess, is what's recession proof right. You know, you're going to have your challenges in certain industries, etc. that are going to be market driven. That kind of feel, I've always maintained that what we do is somewhat recession proof by analogy as well, and I'll tell you why. Number one, I'm buying assets - origin notes primarily at extreme discounts. Now, if the market turns the discounts I'm getting my notes will only get greater.

Number two is the market stays hot for sound buying stuff attract discounts buy by resale on the other end still stay strong, so I'm okay with that right. And then the opportunity and the diversification and the various exit strategies that we have with notes, etc. kinda will let allow us to always be able to pivot in any type of market change. I mean, right now, you know, we've done our share of seller financing, you know, and you say "Well, seller financing is really prevalent when there's a downturn in the market." We've done really well in a strong market. Why? Think about it right, the average credit score of people still in 720s, but doesn't mean everybody's financing right. So we've done really well in seller financing even strong markets, and you know some of that stuff.

And then obviously, you know, short sales will come back, you know, and one short sell my career on a note which was hilarious. The realtor everybody wanted to it was in Chicago, job, love, hate job. I do really well financially there, but it's all the crap that go through to get there. This is a short sale where everybody wanted a piece of the action. I had an attorney representing the borrower, the borrower already moved, she want a relocation fees for bought for play, she wanted her feeds, the realtor wanted their commissions. It was just a joke with regards to, you know, everybody wanted a piece of the pie. And finally I just said no, you know, ready to go to foreclosure sale like two months later. And so I just went and picked the buyers pocket and kept increasing the price of the buyer, so I would end up getting out what I was okay with.

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SR: Okay, it being creative and finding solutions that's a good path, and how people are successful. Ultimately it's finding that problem and figuring out a unique way to solve it.

Jay we're getting close to wrap it up here, would you have a habit or two that have contributed to your success that you'd share with the audience?

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JT: Being resourceful is one of them. I mean, for me, an old mentor told me one time, you know, shoot, ready, aim. I'll dive in and figure it out later versus those who get paralyzed and say "I don't know what I'm doing until I'm ready to I'm ready to be ready." I think you miss out. I think also, you need to partner up with some if as you have that trepidation which is very real and very common. You want to partner up with somebody who knows what they're doing, let them hold your hand and lead you through it. Because I learn by repetition and I learned I got started saying wait who knew what they were doing, and learn by doing, learn by taking the action. I mean that's the strongest thing to do. I mean I'm not a, you know, I did well in school obviously but I'm not a book smart kind of person.

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SR: Excellent. Well thanks for joining us today, Jay. Really appreciate you sharing wisdom with the audience, and we'll look forward to catching up down the road.

[END OF INTERVIEW]

[OUTRO]

0:22:23.0 ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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