EPISODE 1032

[INTRODUCTION]

[0:00:01.6] 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]

[0:00:28.6] WS: It's that time of week again, where my business partner, Sam Rust takes over the show and interviews our guest. I hope you enjoy the show.

[0:00:28.6] SR: This is your daily real estate syndication show. I'm your host, Sam Rust. With me today is Blake Janover. Blake is the founder and CEO of Janover Ventures, a fintech company connecting multifamily borrowers with lenders and processing upwards of 2 billion per month and loan request Lake has been published in Forbes housing wire, many other publications, and is also an official member of the 2021 Forbes Real Estate council-like welcome to the show, thanks for joining us today.

[0:01:04.0] BJ: Thanks for having me. I said it before, but I say it again now. Publicly, I really appreciate it very much.

[0:01:10.0] SR: Certainly. So I was snooping a little bit through your LinkedIn profile, Blake, and you've got a long background in finance, I wonder if maybe you could just sketch for our audience how you guys started in real estate finance and what your career path look like before you started Janover Ventures a couple of years back.

[0:01:28.0] BJ: So I started in real estate finance in very early 2000, it was my first serious career actually started in quantitative finance rating training algorithms for public market equities, and one thing led to another, and the market was kinda hot in real estate finance, in my late teens, early 20s, I became a residential and commercial mortgage broker, and then a mortgage for bridge business and the correspondent lender, and then a lender with warehouse lines, and I closed my first big 20 some million dollar, multi-tier capital stack deal, maybe around 22, 20, 22 years old, maybe 21, I don't know.

[0:02:06.3] BJ: I've actually got the article I me, over here, my mom framed it for me, she was so proud of me, so I started then, and I've been in the business in one capacity or another for the last decade and a half, I did do other things that involve debt markets in general, and technology in general, but I always kinda came back home to multi-family and commercial property finance and where technology touches it.

[0:02:30.0] SR: Appreciate the sketch. So on your website, Janover Ventures, you've got this phrase, he says, you advocate for small and middle market multi-family property investors with technology-charged financing. There's a lot going on there, but I wanted to unpack that a little bit because many of the folks that listen to this show are beginning in their syndication journey, they wanna get that coveted agency card, and most that's the main option that people are aware of, but what does it mean when you talk about technology-charged financing, what's wrapped into that phrase 'cause that's a very intentional choice of words

[0:003:05.4] BJ: so one of the premises or the initial intent, behind Janover enterprises was to remove frictions in the commercial property financing process. So as you already know, I've been in the business for a decade and a half, and I advised on or under winter closed gazillion of dollars in loans, that's not an actual number, will just some very significant number of transactions, and I'm keenly aware of all the pains you put together the property financials, your financials, you call a lender, you give them the information, they ask you some questions, that they send it to the underwriter, the underwriter asks you the same questions, they request the same documents, the area he had... And the appraiser comes in, he asked you for the same documents, you have to make sure documents are matched up, everything's being done, everything's being done kind of like It's 1195, right? It's still happening in Excel, it's wild and you're talking about tons of touch points, and just to kind of get down the road with one lender where you make it a term, he sign it and then find out three weeks later that actually you're not gonna get that kind of deal at all. So what we've... We've taken very intentional steps of removing frictions in the process, so the initial friction of getting a loan package together through our portal, somebody can answer questions and kind of interact with a digital loan processor who's asking all the questions that mortgage bankers...

We wanna tell you are intuitive and intuition, and based on 15 years or 20 years of experience, and it's... Now, since everything is, If This, Then That, right? So we dive our deep into those questions and then we're dynamically Building A Deal package while somebody's going through our secure portal, and what I have been able to do with a long years of experience is get the great lenders into our portal also, so kind of acts like a Tinder or match making. So as this deal package is built, we know based on all the data points given plus data that we're grabbing who's the Ravinder for the deal, and we're able to get it in front of that lender and to create the direct connection in the interaction rate door corals that's the technology charging it ran.

And then as far as opening it up to smaller middle market Borrowers, First off, middle market can be to 50 million loans or 25 million loans, and small it could be 5 million loans, but for the purpose of this conversation, we could say small as anything from a million to five, and middle market is from five to 25 new and small borders people doing their first deal for 2 million shouldn't feel bad, I don't know if they do, but I wanted to say Don't feel bad that your only relationship is a broker or a bank that you've done business with, or you're not sure what all your options are, we've done deals for public housing authorities, we've done 20 plus million dollar loans for really sophisticated investors and really sophisticated borrowers and syndicators who just didn't know what the other options were or knew that the option that they were offered just didn't feel right and wanted to see what else is out there, so that's kind of where we are working with that universe and using technology to make it less painful and make better connections, better connections for borrowers and lenders.

Because lenders don't want deals that don't work for them, and they don't wanna send you a term sheet and change it later, they want the right deal borrowers want the right deal, and so working on a better mousetrap.

[0:06:22.4] SR: That makes sense. So there's a ton of options, there's a kaleidoscope of options when you're going to look at financing a property and may be focusing on somebody who's starting out, maybe it's a small apartment complex, they're getting a 5 to 7 million dollar loan, something along those lines. What are maybe a top option or two that you see frequently gets ignored, overlooked or just frankly doesn't have that much publicity around it.

[0:06:45.4] BJ: I'm just gonna choose one. And it's FHA. Now, actually, as I say that, because you're talking about a purchase, he's not always the best option for a purchase, 'cause it takes a long time to close and it might be a better option for a refinance, but it's a very overlooked product, so a lot of people associate HUD with affordable or section aid or things like that, but the reality is how ensured is available for market rate properties all over the country, and loan devalue ratios are to 85%.

I think the last deal we quoted was in the twos, it's non-recourse is fixed and fully advertising for 35 years, and by the way, for first time borrowers and small borrowers... I can't stress enough how important. Non-recourse is, if you haven't been around for a cycle like I have, and others like it doesn't make me better, by the way, right. I got drowned in the last cycle, but if you haven't been around for a cycle, you haven't really experienced first-hand what happens when markets capitulate during covid 19, Frannie Mae and Freddie Mac kept the staff liquidity into multi-family and carats didn't explode. They remained type as interest rates kind of plummeted and stayed really low, so things go wrong and non-recourse is really important, so FHA would be my favorite overload product, and I think you'd be surprised, but a lot of first time borrowers don't know that they can get Frannie Mae agency financing. I think there's an impression that you can't do that as a first-time borrower, but you absolutely 100% 10. If you hit the net worth and liquidity requirements, you're close to the property within 100 miles, you're using a third party property manager, you can buy an apartment building and get a loan for his lost a million dollars from Frannie Mae, 30-year fixed and fully amortizing loan, that's non-recourse. If you wish.

[0:08:35.8] SR: I love the stressing on non-recourse, we... On our side, we signed on some limited recourse, I have a preference for a non-recourse wherever possible, really depends on what our plan is for a specific complex, whether it's a quick flip and we're trying to eliminate pre-pay penalties or other things, but it is interesting talking to some of the guys who've been in the industry 20, 30 years, they continually come back to the importance of that non-recourse debt, I think everybody who lived through 2008 knows exactly why.

[0:09:05.8] BJ: Yeah, and it's not to say that there's not a place for a limited recourse or for full recourse is just to say, I will take it lightly, I know that you don't, but speaking to other folks that are new, we're intro, I'm just gonna take a 85% one of your advertising, flipping rate bank loan, Well, you're better off to raise a little more equity and take a little risk off the table and run a better debt service coverage ratio.

[0:09:50.8] SR: On the FHA program, one of the specific programs that I've looked into is the 223f program, I believe it is through HUD. They've recently relaxed some of the guidelines around how long new construction has to seize on before they'll put that type of loan product on it, generally speaking with an A Fetcher loan, whether it's 2-23 for some other program, you mentioned it takes a little bit longer to get through the loan process on an acquisition side, what should people generally budget from a timeline perspective from when they start the process to when they can safely expect to be able to close a loan? I'm guessing based on what I've heard, it's more than 60 days,

[0:10:25.8] BJ: as it is for anybody listening, I'm like, I have a big smile and a quasi-laughing because how can you see if... We estimate how long it takes in Westover at one rate. But if you have a highly competent lender, the conservative number, if you have to be including extensions and everything else, you want it to lead yourself nine months, I mean it can close in five or six months or less... Not likely, I've found historically that seven months is a safe window, and this is nothing compared to 2214, which is, in my opinion, the ultimate construction financing product, if you're not merchant building, right, it's 40 years fixed and fully advertising plus of the three years interest only fixed non-recourse, 85%, LTC is like the best of the best.

[0:11:10.5] BJ: But we've had de-4s take us a bunch of 24 months to close, I'm not saying that that's how they all are, we've had streamlined ones that have gone in 10 months or maybe less, but men, nothing is smooth or easy, although the FHA has made real efforts to approve the process, they really have... In some lenders have done an excellent job in streamlining, so there's about there.

[0:11:33.5] SR: Yeah, hopefully as technology continues to creep into a good old boy network, so to speak, we can continue to eliminate a lot of the friction, like you guys are trying to do a Janover Ventures when you're working with newer borrowers, do you have any tips or mistakes that you see pretty frequently that you would caution people against when they're prepping their loan packages, are working with a company like Janover a purchase.

[0:11:54.5] BJ: The most common thing I see is not estimating the rate real estate taxes, you get like a... I won't say Marcus and Millar Cushman Wakefield, but you get a no from the one company and it shows your proforma, six cap or seven cap and real estate tax number is the same way you're by a 5 million property for over the old lady that bought it for 90000, 1000 years ago, right? Your real estate tax bill is gonna go up in some cases really significantly, and that's a material factor that I think people forget to contemplate in their underwriting.

A common mistake I also see for first-timers, I don't even remember if you asked about first time... The first time... Yeah, that works. A common one I see for first timers is, I live in LA or Austin, properties are two and a half caps out here, so I'm gonna go to St. Louis and get a 15 cap. I found a deal on the loop not, I'm so smart and make... My mother would say to me like, why are you so lucky? So usually I'm criticizing. I'm not good, I'm not criticizing Cristina build. I just say that if you find a 15 cap and you have to collect rent in the temple invest, there's a lot of things to consider besides just... What's the cap rate?

Geography really matters, property management really matters. Somebody that manages a single family has no business managing multi-family, somebody that manages class a institutional alt family has no business managing a C deal in market that's gentrifying. So these are all things to really take seriously ahead of planning the package when it comes to a package, hit your net worth at your liquidity, I give a detailed T-12 trillion, 12 months on my month PNL back out CapEx from your operating expenses. It's not an operating expense, and it shouldn't be underwritten is one, I have a detailed rental and then the area of Covid. Economic occupancy is more important in physical occupancy.

[0:13:45.1] SR: Yeah, I think economic occupancy was often overlooked and it was just, Well, what do you have on your rent role and then that fallacy was exposed, certainly over the last 18 months, we certainly saw that at our properties as well, everybody was struggling. It just was kind of to what degree? I think overall, if most property understood better than maybe they expected, if we go back 12 months, 18 months, it certainly was an interesting Spring of 2020,

[0:14:09.1] BJ: No kidding, but I haven't seen the dealer to where it's like 100% occupancy, but we're not really collecting any rent and that's not really a financial opportunity.

[0:14:23.1] SR: It's not terribly meaningful to investors, bankers, anybody...

[0:14:26.1] BJ: Right, I'm so glad there's people in your building, but we're gonna need cash flow.

[0:14:29.1] SR: Definitely, so I'm curious, Blake, back to your LinkedIn profile, I notice that you are an Entrepreneur in Residence at Florida Atlantic University, I was just curious if you could elaborate on what that is and what you contribute to that university.

[0:14:44.2] BJ: I'm homeless and I live in their cafeteria. Here, cafeterias are a great place for fights, a fancy way of how they say that I'm their mentor program, so students have an F, and it's a really cool school and much bigger than I do and really beautiful. It's crazy because I lived in Boca where I live now, but we were doing in the past, and I live here now again, and just recently visited the campus or not so long ago, and was blown away by how beautiful it was, but like I judged... Start-up fitment recently, and student entrepreneurs that are looking for feedback or help when they're starting up with their ideas or whatever, they can reach out to me and I'm really excited to hang out with them and ideate or explore it. If that's a word.

[0:15:29.2] SR: What do you mean when you say ideate? Could you expound on that a little bit?

[0:15:29.2] BJ Well, I pulled it from ideation, which I'm not sure if that's a word either, but I suppose it would be the verb of idea, it would be the process of coming up with and exploring ideas, you'll have to let me know if I'm just completely making words up on your show.

[0:15:47.1] SR: Well, I think you just did, but I like it, so we'll allow it. Alright, thank you.

[0:15:29.2] BJ: You may choose to edit it out 50% of this conversation, I will not get to you.

[0:16:04.1] SR: No, this is fantastic. So this process, to use your phrase ideate or your word ideate, I think it requires innate curiosity, and we were talking about this before we started recording, but reading certainly is an important part of exposing yourself to a wide variety of sources, what keeps your curiosity and how do you satisfy it other than just reading a tremendous amount of material?

[0:16:23.2] BJ: What peaks like curiosity and how do I satisfy it? Reading is probably the biggest thing when I find a subject matter or a person or an idea that I wanna know more about, a deep dive until it bore with it, I can see it very eclectic. Denoted, I consume information, I consume. It's super eclectic, and it's not that I'm particularly smart, I have to read all these things because I'm not so smart, there's so much for me to get and there's so much they don't know, but I could be reading about Physics and Mathematics and Science Fiction, and Richard financed on public equity analysis and have tending these books open at the same time, but not like Apple on like changing panel looking at all the ones, but something in the bedroom, something downstairs on audio book, and I'll deep dive on podcast on certain subjects, and I find interesting, when we were talking about it, we both got more curious about CDO over the last 12 to 24 months, so I've done all kinds of exploring around there and I to fiddle with things, so I like to download the apps and touch every button and looking every nook and cranny.

[0:17:34.3] SR: So you mentioned crypto, and I did wanna touch on that briefly. For a lot of folks may be members of our audience, they're just now being exposed, Bitcoin is certainly in our cultural ICI, but now maybe people are starting to hear to centralized finance, and I know neither of us pretend to be experts, I think there's very few actually qualified experts in the field because it is so nascent and it's changing so quickly, but do you see any crossover between crypto in real estate either now, in the near future, the mid-term, what's your outlook for how those two asset classes, if we can call crypto... An asset class and how they will potentially intersect and interact with each other in the future.

[0:18:19.2] BJ: I love this question, and I think it's appropriate to say that I have neither laser eye or diamond hands. I don't think I own any Bitcoin. I haven't been part of the boom or subsequent Mor. Anything else? I'm not sophisticated around this at all, there's some really smart guys, I'm not one of them, but I do really like the... And I've explored a lot, the idea of not so much, were Crimean crypto gets too much pipe over the foundation of blockchain, like this foundation of transparent, publicly shared transactions that are super secure and probably cried or being on a problem, but a challenge with do if you wanted to tokenized real estate is that it's not materially different than selling units in an LLC, it still comes under the same security of the SEC and regulators, but what's really interesting is if you could put entire transactions and all of real estate on the blockchain, you have developed some kind of Oracle network, I'm excited, but if you could just do the whole transaction on the blockchain, so I'm buying the property as a GP, reason Capital may be toning it. For me, this is a material, but now the title to the property lives on the blockchain, and now when it changes hands, it can change hands on the blockchain and what a borrower make mortgage payments or even better, when attendant makes payments. Like it all happens in the ecosystem that everything had become really transparent and distributions can be fully, fully automated with Smart Contracts, and men there would be like... It's really limitless, what can happen once you include municipalities and tenants, and payments kind of streaming payments where where tenants are paying by the moment and distributions are happening by the moment in real time, and property taxes and insurance are coming out by the moment, everything that becomes much more fluid and transparent, but it's a herculean effort to get title companies, you talked about good old boys, talk about the ultimate good old boys.

This whole title insurance process is ridiculous, I think state title was trying to innovate there, but you gotta get title companies, municipalities, GPS, LPs, a lot of people have to come on. But man, that would be really cool.

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[0:20:45.3] SR: Yeah, as I've thought about that question myself and try to figure out what does the future look like, if you take the most optimistic view, it's pretty amazing the synergies that could be achieved and the intermediaries that you could do away with and really eliminate... We're back to friction again, but using that technology of the blockchain to eliminate so much of the friction that exists in real estate, but there's so many institutional players that have been part of the landscape for hundreds of years that aren't gonna go quietly into that good night. And are slower to adopt technology, and so I'm really curious to see over the next five years what happens, particularly around title custody. Can we ever get title onto a blockchain? I think the answer is yes, but you have to achieve a certain level of scale to make that feasible, and I've just struggled, maybe I'll El Salvador is gonna be the first country that starts going in that direction, they've adopted Bitcoin, maybe they'll start the real estate trend as well, but I think it's going to take something like that, maybe even a state that's willing to go through that art ilium effort to get everything up on the blockchain, 'cause once it's there, it's so much easier, it's deporting everything over, whether it's through oracles or some other form of network, that's gonna be the challenge.

[0:21:53.5] BJ: I see when a small group of people in an innovative market... I don't wanna say San Francisco, so whatever... Maybe Miami says, Alright, we're moving everything around the title and deeds, there's all the one on the blockchain, and I think when it happens in a small place in spreads, and I think that there is a really interesting case for making everything more efficient right now, there's a lot of people that are like crazy about defiant right now, it's a bit of a mess, like transactions are really expensive, there are very few actual decentralized platforms, most platforms are fully centralized, even the decentralized governance guys are really de-centralizing part of their governance, but not all of the governance, and there's a lot of bad actors to work through, there's a long ways to go, but I don't have any doubt that if the technology has all the latent potential that it seems to have, that there'll be a change of guard. There has been in every massive innovation from flash drives to tablets to smartphones, it happens and cooperate in the film, so it'll happen, it's just who's gonna get in on it first, who's gonna be the early innovators? Who's gonna take the risk? Man, I were a part of it, but we'll see,

[0:00:00.0] SR: I've heard decentralized finance specifically referred to as the Wild West where the land has just been opened for settlement, we're pretty sure that all the land has value, but we don't know where the cities are going to be and so we're trying to figure out where is the oil, where are the good minds, where the city is going to be, and you hope you don't end up with the desert wasteland.

[0:23:28.5] SR: When you stake your claim. So there's definitely a huge component of buyer beware, but there's tremendous value being created also, So sifting through that noise requires a lot of research requires diamond hands a little bit to a degree, you have to be convicted on your thesis and then follow it through because of the extreme volatility, you definitely can't look at your portfolio on a daily basis unless you're taking something that helps your mood stay at equilibrium.

[0:23:57.0] BJ: There's a lot of speculation, there's a lot of things that have aren't valuable that are moving as if they are, we're in the cohorts of all asset classes are like while respect there is... I don't wanna... To anybody, and I mentioned Cogeco or these other things are, but I mean, there is invisible sculpture that... So recently, I don't know if you saw that somebody sold an invisible sculpture for a crazy amount of money, and I don't... I could offend somebody with NTs, MTs have a use case, an excellent use-based like cross-musical ties and things like that, but there's other cases where it's hard to get my arms around, and I'm sure somebody smarter than me can send me a hammer, a text message for a person, but the underlying infrastructure, this distributed ledger thing is really cool, and I think it has a place in the future of financial markets,

[0:24:56.9] SR: Pivoting a little bit like debt has been highly volatile over the last 18 months or so, as you... From your seat, look out over the next 12 to 18 months, and I like to ask folks, What do you think is gonna happen in the real estate market, but I'll ask you a little bit more pointed, what's gonna happen in the debt market from a broad standpoint, and what leading indicators should people be paying attention to that will signal, Hey, a change may be a foot as far as interest rates and liquidity in the marketplace.

[0:25:17.9] BJ: That's a good question. It's easier to speculate on where real estate's gonna go, where broad markets are gonna go, but if you ask me, were real estate that markets are gonna go over the next call of the 18 months or so, it's hard to say. So one of the leading indicators is gonna be inflation, if you believe that inflation isn't transient or that their... That inflation is gonna continue to grow, you should have had an expectation of the higher interest rates in the future, if the spend comes out and indicates tomorrow, which is Wednesday, is that's not really gonna be ever, but if the vent says that they're still gonna remain very accommodated, and you believe there's gonna be inflation, then you really have to worry about in-trance rates by use of the fans they're gonna raise in trash grades, then you have to tell longer term interest rates, it's really gonna be very tied to inflation from an asset class perspective, multi-family and of course industrial or flash mode to agree, this stuff still super valuable.

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[0:26:15.8] BJ: So maybe the sand Board of consequence is percolating, but by the way, I think retreats to stay the same and there's no inflation, like Everything's gonna be okay, there's gonna continue to be a lot of liquidity or van from Frankie, from The FHA, from banks, from Credit Unions, I wouldn't expect to be really significant and really ones, but the rest do move up, one of the things that contemplate is one that does to carats in those second or of consequences of property value, especially if you've got some kind of perform an exit or perform a re-capitalization, if you wanna remind us in three years, what if interest rates are much higher, CAP rates gonna be much rigor, what's my property will be worth, so it's probably worth running stress tests once you start looking out at 12 to 24 months in the future.

[0:27:02.0] SR: So it sounds to me like you're making a bullish case on fixed rate debt, is that a good way to sum it up, because you didn't outline a scenario where interest rates drop... I was listening for it, I didn't hear it like,

[0:27:14.4] BJ: Yes, I've had this silly bullish case on long-term debt for like 10 years, and 10 years ago, I was in the fives and I bought... I think if you're getting along in the twos or the three S for the fours, take it and take it as long term as you can get a Troyer advertising on if you can, but I thought that certainly years ago, one rates for the fives and the few years ago and reads her in the fours, and we've cashed deals in the recently, so I caution you about taking... My advice apparently is really bad at predicting interest rate markets and inflation,

[0:27:48.0] SR: I think 98% of people in a financial Rom fall into that. I know that one of our first loans, we locked at a four flat and just was dancing for days after that, and then we locked alone at like a 28 here about six months ago…

[0:28:08.7] BJ: or is so worth benches like you live a beautiful lion Brannon house in his car, but kids, you go on Instagram and someone's got a better house, better care and better kids, you're 4% is really good at... I get on Instagram, you can spit... You got a 2-15%, you go along later, but for good in two half school in three days, but these are great rates when you look at it from a macro perspective, over the last 15 years under... You're doing amazing. So lock in that long-term fixed rate finance, it can be real careful about that pointed rate debt and those loans that have a recast in five years, for sure.

[0:28:15.7] SR: Awesome. Well, as we close out here, Blake, really appreciate you joining us today. Work in our audience. Learn more about what you're doing at Janover Ventures and how can they connect with you.

[0:28:45.7] BJ: So you could go to JanoverVentures.com not .net or .edu. It's an JanoverVentures.com and you can see kinda what we have going on, you can apply for financing, you can invest or raise money, it's all right there, and find me on LinkedIn, if you just look up like an over on Twitter where I get a little weird as you can imagine, a professional on LinkedIn, and I hope to see some people there.

0:29:10.7 SR: Fantastic, well, thank you for joining us on another episode of the real estate syndication show. Have a great rest of your day.

[0:29:16.7] ANNOUNCER: Thank you for listening to the real estate syndication show, brought to you by Life Bridge capital. Like rage 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 bridge capital dot com for free material and videos to further your success.

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