

EPISODE 1050**[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.

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Whitney Sewell: This is your daily real estate syndication show. We are introducing a new segment called The Real Estate Syndication Show Highlights, where we're bringing you a look back at episodes focused on a specific topic that we believe added a lot of value to you in your syndication journey.

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[INTERVIEW 1]**00:00:50.0**

Whitney Sewell: Our guest is Michael Sjogren. Thanks for being on the show, Michael.

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Michael Sjogren: Thanks for having me. I'm excited to be here.

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WS: You started to find landlords that you could help change their business model to increase their income.

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MS: I found landlords that were looking to rent their property on Craigslist or Zillow or anywhere like that. I'm like, "I see you've got this property for rent. Let me show you some data on this new model that I'm working on, that I've got some data on. What if I could increase your revenue by two to four X?" They were like, "What's the catch?" I'm like, "There's no catch. It's just a different model. We're renting your property out by night instead of by the year." A lot of people said no. A lot of people were scared and everything else. The first couple that said yes, we get some data after a few months and like I told them, they were two to four X in their top-line revenue on these properties. It's been fun.

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WS: Where can I do this? Are there specific locations? Is it wide open? Is it any city? Where can we do short-term rentals?

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MS: As this niche matures over the next couple of years, some of you may have seen there are different regulations. Every city is different. I avoid any major cities. I live just outside of Boston. I don't operate within Boston. I operate about 30 to 45 minutes outside of Boston. Any large, major metro or major city that has a "lack" of affordable housing, they don't like short-term

rentals because they're like, "We need inventory for people to live here." As far as would it work in a market versus Google short-term rental ordinance and enter your city name and then that will tell you if it's legal or not. The most common restrictions I see are owner-occupied or the limited number of days in certain major cities, but other than that, it's pretty new. When a lot of people think of short-term rentals, they think of vacations.

One of the things that I talk about a lot is there are nine different traveler profiles. I won't go through all of them but if you think of it, you've got vacationers and you've got corporate travelers. If you're anywhere near a university, you've got traveling staff, you've got people visiting, you've got parents visiting. If it's like vocational schools or nursing school, it might be a thirteen-week program. They need to come to somewhere for a shorter period of time, a few months. If you're near a hospital like the situation I was talking about earlier, we were there for three weeks at a time. That's very common, especially at some larger or specialized medical facilities. Those are a few and in general, there are lifestyle events. No matter where you live, people move away and then they come back for birthdays, weddings, funerals, wakes and all sorts of life events.

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WS: As far as multifamily properties, complexes, is that something we could incorporate?

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MS: Absolutely. A friend of mine from my mastermind group operates down in Southern Texas. He owns a lot of apartment complexes and he's starting to transition about 10% of his units to short-term rentals where he will furnish them and he's generating fantastic cashflow. I had a call from an operator up in Canada who's doing the same thing. She's starting to switch her portfolio. She's starting to allocate some of her units to short-term rentals.

I will say that deal specifically. We have professional management that's managing the day-to-day operations. How would that work? These two units, you're not managing, other than maybe maintenance and some direct things like that, but then I'm going to hire somebody like yourself to say, "Michael, you're managing these two units."

You could go that route or I teach my students, the portfolio that I have now, I have all the systems in place. I can manage that portfolio in less than two hours a week because so much of it can be automated through all the amazing technology that we have. A lot of people, myself included, when I first looked at this business, I'm like, "It looks like great cashflow, but it's got to be way more work than hiring a management company like traditional large multifamily investing." The truth is if you have the right systems in place, you can automate 95% of the business. If you wanted to, you could do it yourself or you could hire somebody like me, but this is all we do.

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WS: Can you give some examples of how you're automating? Maybe some tools that you've found to be very useful that we could use on our syndication business as well.

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MS: There are four systems that you need. We can talk about a couple of them, but the first one is pricing. Similar to hotels, airlines or anything, if you go online, you will notice those prices change every single day. There's a bunch of them out there, but I use a software called PriceLabs. That automatically adjust my rates every single day to maximize my occupancy and my revenue throughout all my properties. I will go in and review it once a week on Monday

mornings and see how I'm doing in certain things and maybe tweak things here and there, but that handles the majority of it. You need communication or a channel manager. If I put properties on Airbnb, HomeAway, Booking.com, Expedia, all of those, you need to make sure that those calendars sync up and that all the messages on all the platforms come together. You want to automate most of those messages because I get thousands of messages a month. I don't want to sit behind my phone or my computer and answer all those messages. There are different software that you can use to manage that. A lot of them even have artificial intelligence. If somebody is like, "Where's the pool?" It will detect the question about the pool and it will send a response about the pool.

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WS: Something simple about how to get in, a code or address. It can know exactly what to say.

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MS: The third one is around access and security. We will talk about this one because this is a common concern for most investors. Access, there's a bunch of different Wi-Fi locks that you can use. Nobody ever gets a key to one of my properties unless it's an emergency and they have to use one of the lockboxes. I use a Wi-Fi lock system called August Home. That platform integrates directly with Airbnb, HomeAway, and a bunch of other platforms. Anytime somebody books my properties, it automatically sends them an email that says, "Here's your unique code and here's how you can download the app to access the property." That code is only valid during their stay from 4:00 PM on check-in date to 11:00 AM on checkout date. That code no longer works after that.

From a security standpoint, nobody could go off and make duplicate keys or anything. I have a four-step system. You've got the Wi-Fi locks. I use as a Ring security camera on the outside of every property. Their government ID, profile photo and everything has to match on August Home, which has to match on the Ring security camera. If somebody says, "I'm coming with my wife and two kids," and then they show up and I see that there are fourteen people there, I know that there's an issue. I can send somebody from my team or call the police and get them out of there. Inside the property, probably the coolest piece of technology and I was hanging out with one of the cofounders is called NoiseAware. It's about the size of a mouse and you can plug it into an outlet in the property and it measures noise levels.

You can't hear conversations or anything, but all it does is measure decibels. I can program that thing to say from between 10:00 PM and 8:00 AM, which are my standard quiet hours. If it goes over this baseline threshold, it will text me immediately. The first time before I had all this cool stuff, somebody did trash my place, then I upgraded and added those stuff. It's happened three times and I either send a message or I call the guest and I say, "I hope you're having a great time. I don't want to be the party pooper but I did get a noise complaint from one of our neighbors. I don't want to be the bad guy, but we got to keep it down. As you agreed with our house rules, our quiet hours are 10:00 PM to 8:00 AM." Every time they're like, "I'm so sorry. I didn't realize how loud we were being. We will tone it down." That was the end of it.

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WS: What about safety for other tenants? If I have a multifamily property and I'm going to do this with a couple of units to test it out. What about safety for the person that's her home right next door?

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MS: The only way that somebody can book my place instantly without me approving them is if they have a completed profile, which means they have a verified name, email address, phone number, government-issued ID and they've already had a positive review from another host. They've already used the platform and somebody else like me already hosted them and said, "This was a good guest. They were great. They took care of the property." That's the only way that you can book my place without me physically approving you. Otherwise, you have to send my team a message and say, "I'm coming to the area for X, Y, Z. There are going to be X number of guests. It's my wife and my two kids, my brother-in-law, a couple of buddies," or whatever and lay that all out. They have to have everything completed, then I could check the security cameras. If I felt anything was off but I don't rent to people under 25, I have those baseline rules in there.

[INTERVIEW 2]

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Whitney Sewell: Our guest are Julian Sage and Jon Bell, thanks for being on the show guys.

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Jon Bell: Thanks for us, Whitney.

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Julian Sage: Thanks for having us.

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

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

When I listed my basement unit online, I realized that I was actually quickly able to cover my mortgage, which kind of inspired me to start this blog, Short Term Sage to be able to teach other people that you know, short-term rentals is a way that I don't have, as a military guy, I wasn't making a lot of money.

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

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

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WS: Nice, Jon, where are you located and why is Airbnb your focus?

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

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

I started — I had a full-time job at the time and I just wanted an extra \$4,000 a month and I was able to achieve that very quickly and before I met Julian, I was already scaling up to about 24 apartments. I had the 24 and I was still working my day job, it just was so easy to kind of get things going and I took that franchise mindset that you know, systems and standards kind of thing where I built these systems and it made management of these apartments really easy and I just didn't, it didn't stress me to have them and I was – Because I was a flipper, I knew other flippers, right? So my investor friends that kind of came out and they had properties, they were going to flip or they bought a bigger building and they didn't know what they were going to do.

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

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

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

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

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JS: Yeah, well you know, as a syndicator, there are a couple of options that you definitely want to consider. If you do have a property, you know, a lot of people say, you know, it's

“location, location, location,” which is important but the thing about short-term rentals that we see and that we teach others is that short-term rentals don’t always have to be in these major cities or they don’t have to be specifically in vacation destinations.

A lot of people travel to different areas. You might have a multi-family building and maybe more of a rural area that’s outside of where, maybe a lot of hotels are. That might actually be the perfect area for a short-term rental because people traveling to that space, maybe they are looking for a corporate stay, maybe they are traveling nurse, a blue collar worker, someone that’s going into maybe an area that your property is located in, that you can accommodate for and there might be a large business there, it could be next to university or schools.

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

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

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

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

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

We see that they like that or in some cases, we actually take up entire floors. Just because some people don’t want to mix short-term guest with long-term guest. We understand that concept of course. The advantage of having like somebody like ourselves come in is we can take the floors that are necessarily not that popular or maybe like all ground floor apartments because our guest don’t necessarily care that “Hey, I’m not living here on the ground floor but yet, I’m just coming to stay, this is a comfortable space, it’s styled very nicely and I’m just here for a week.”

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

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

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

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JB: There are some really useful tools out there that we use in our industry, one of those tools being AirDNA. AirDNA, it's just a market analyzer tool, another tool that we like to use as Price Labs which is a pricing tool and they have similar data, a little bit different. Then going online and looking at sites like Airbnb and seeing what other listings are in the area and what some of the revenue and that they're bringing in. Not only the revenue though, but the quality of the properties, these are things that we look at. Or, you could work with guys like us, we love to look at properties and analyze them and come up with numbers and see if it would be a good fit and that's kind of one of the services that we provide to multi-family owners.

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

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

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

We also know that hey, picking up a short-term rental is way cheaper than going out and buying a property because we use a method called rental arbitrage, which is basically, we go and rent an apartment and we rent it back out to Airbnb guest or short-term guest. That way, we're only in for the furniture, the security deposits — so, we're talking, let's just say 10,000 per apartment. Allowing somebody to come in, dump some money into the fund, we're actually paying out 24.5% IRR on that fund so really great returns and we're doing

that over a five year spend and you almost could double your money by investing into the fund.

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

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

Even in these metro areas, again, people are still travelling for work. People are still doing business, so you know, the areas that we might see the greatest impact might be completely isolated destinations maybe like Tulum or a lot of maybe like ski resorts, things outside of that but really again, it is going to be market and location dependent because each county is going to have different regulations on how they will adjust the travel but short-term rentals it really is a market specific type of effect.

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

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

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

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WS: How do you prepare for a downturn with Airbnb?

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

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

[END OF INTERVIEW]

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Whitney Sewell: We hope that you enjoyed the Highlights show today. You can always listen to the full episodes that were featured today by clicking the links in the show notes page. And in the description box, let us know what you've thought of this episode or you can go to lifebridgecapital.com/podcast and click the feedback button. Let us know how we can add value to you. Thank you and talk to you tomorrow.

[OUTRO]

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