EPISODE 1165

[INTRODUCTION]

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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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Sam Rust (SR): This is your daily Real Estate Syndication Show. I'm your host, Sam Rust. Joining us today is Blake Selby. Blake is a 31-year-old direct private lender with $5 million in paid-off real estate assets and $2 million in liquid cash. He began as a real estate investor and transitioned into full-time direct private lending, we're going to dive into that. Blake is active in the real estate investing community, Iowa area, and is always willing to share his knowledge and experience with others. Blake, Thanks for hopping on the show today, a pleasure to have you.

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Blake Selby (BS): Thanks so much for the opportunity, I really appreciate you having me on your show.

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SR: Yeah, for sure. Now, before we get into the nitty-gritty of real estate, I was doing my homework and doing some research for the show, and am I speaking with a rap legend?

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BS: I had a single, which got on the radio when I was younger, it was with a fairly famous rapper out of Chicago, did some collaborations with Kanye West and some other things like that. So, he's fairly well known. So, he and I did some touring together, sold out to Michigan Theater, and we did have some radio play. And then I had a few other singles that did pretty well over a million streams on Spotify and some different things, they still have a channel for me. But that was in my past life, I still get royalty checks, which is very nice, but that was a past life for me and some fun to do when I was 23.

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SR: That's fantastic, I'll bet. I did go on to Spotify, I found it. I listened to some of the music. That's fantastic. So, what precipitated the switch from, you got into college, you went to Michigan State, you're kinda doing this music thing for a little while, what flipped in your mind to get you into real estate?

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BS: But the music thing for me was just a hobby. I actually went to Michigan State for a degree in Exercise Science, which is basically Kinesiology. My degree is BS in Kinesiology, Bachelor of Science. And I thought that I would be a gym owner, which I did right after college. Music was just something I did on the side, and I just happened to have these two songs that did really well, and I kind of thought maybe I'd go in that direction. But I was kind of noticing that the music industry was just a really tough grind, and I was just happy with what I did and made plenty of money doing that. That was a nice little spring board along with the gym that I had got running up in Bettendorf, Iowa, which is how I got here, basically did the gym for three years and then parlayed that into real estate, so that was the, kind of the, once I made the switch into real estate, I stopped doing the music, I stopped doing the gym stuff, I just focused 100% on just that one thing. And that was a great move for me because music becomes harder as you get older, it's, you know, especially keeping up with the sound, it changes. I was relevant for my era, but I wouldn't be now.

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SR: It's amazing how fast things change. Things don't change as quickly in real estate. There's a lot of time to find your lane and a lot of time to exploit those inherent images. So, you were a gym owner, did you own the real estate for your gym as well, or was that just you on the franchise?

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BS: I didn't. I just had this gym and I was paying rent, a huge rent. It was a massive gym, probably the size of a YMCA. We were paying, I think we had 15000 square feet. It was massive. We had a separate CrossFit hold room, it was just this massive CrossFit room. We had a separate UFC Fighting room with its own classes going on simultaneously. A separate personal training studio inside the gym, a separate cardio room, a separate gym room. So yeah, it was, we had a full-time daycare, we had a smoothie bar, it was all of the things. It was an interesting time, I made some money on it, things were good, and then I actually sold the gym for about double what I was into it. That's what helped me out, but yeah, with music, pyramid, right? So, only the people at the top are making real, real money. Sustainable where you could make a living. And it's very short-lived. With real estate, it's not so much like that. It seems like in real estate, most people, if you're fairly conservative in what you're doing, you pick good assets, the average person can do moderately well in real estate if you do it for ten years. I don't know if you're going to get rich quick in real estate, especially being a landlord, but it's certainly a way to get things moving and grooving, and that’s if you're an average person. I like to think I'm above average for what I've done in real estate, but even if you were doing it as a kind of a side thing, I think that you could do reasonably well if you gave it a decade.

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SR: Well, just reading your bio, you've got a net worth that's approaching $10 million, and that's in about seven years of working in real estate. If I'm doing my math correctly, that's better than moderate by almost anybody's standard. But listeners may have caught something that jumped out at me when I was first reading your bio: that you've got five million in paid-off assets.

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BS: Paid off. No loans, no debt, no partners. Nothing.

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SR: Yeah, so could you explain, kind of, that's not the typical entry in. Now, you were maybe in a slightly different position because you just sold your gym, you had maybe a bigger seed and a lot of other people do, but there's so many different paths to make money in real estate. This is not a path that I've seen all that often, so walk us through how you figured out what your lane in real estate is, and then how you came to this strategy of paying it off as you go.

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BS: When I first sold the gym, one of my gym members was the vice president of a local bank that did portfolio loans. And what a portfolio loan is, it’s an in-house loan that doesn't have to get sold off to another bank. And so, he knew what I was capable of, having been a member for three years. Even though my financials were not up to snuff in terms of PNL’s and tax returns, what I did have was a huge base of members. In his mind, he had seen what we were doing, and he knew me, intimately was familiar with my situation. So he lent me a million dollars through the portfolio loans. Not only did I have the money from my gym, then I had a million-dollar loan on day one. I'm not going to sit here and say that luck wasn't huge, it was. That million-dollar loan in the beginning was massive. Obviously, the sale of the gym was huge too, that was a large six figure amount. So, I was cash-heavy in some ways, cash heavy on day one, where I had a lot of purchasing power. And so, I went from zero to 80 units in just over a year.

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BS: I mean, it was quick. And then I ended up with 320 doors by 2019, with millions in debt. I took on tons of debt, tons of debt. And I just got to thinking you know, why am I suffering and struggling to, you know, just to keep everything afloat, doing all of this extra work when I could just simply sell off maybe 200 of the units and then have the remaining hundred and something just paid off. And then I could essentially make the same amount of money doing half the work. Well, it turned out not only that I was able to sell those off at a huge profit, I was able to not only pay those remaining hundreds, and I think it's 106 off, but I was able to have seven figures leftover from that. And then, also, I retained most of the management on those contracts. So, we've built that into a 400 or 500-unit management arm of the business, and then we've done private lending, so it just kind of exploded from there. But that was the best decision I ever made. And we're in an up economy right now, but I was very fearful of gosh, I've never made it through a downturn before. 2008 was before I did real estate.

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BS: I didn't know if I had massive, massive debt, I didn't know how well I would necessarily weather a storm, especially with some of the legislation that's been going on with the pandemic and eviction moratorium and everything else going on. And in hindsight, it was the best move I could have made. You'll never know. It's a big, big chunk.

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SR: Yeah, that's fantastic. So, a little bit more detail on those units, and I've watched some content that you've put out on LinkedIn and other platforms, it looks like you've done a mix of small multifamily, maybe some, it's size multifamily, and some single-family residents. What's a perfect Blake Selby investment real estate right now?

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BS: Yeah, right now, most of my portfolio is based around single family, but I do have multifamily, of course it's in there, and I started more with multifamily. I started with strip malls and multifamily. That was, my first year of real estate, it was mostly multi. I don't dislike multifamily, but I do find that it's more competitive, so it's harder for me to get good deals on multifamily because there's less of it, and there's a lot of people seeking investors that are seeking bargain prices on it. With houses, I find that there's just so many freaking houses, there's so many of them, you almost could never have enough competition for the bargain properties in the houses, but especially when you got twenty units and above in multifamily. It seems like everyone I talk to asked me hey what have you got? What’ve you got, what’ve you got? It’s not that I had a bunch of off-market stuff that I know about. And they'll be like, what do you have over 20 units? And I'm like, I know about a lot of stuff over 20 units, but you're not going to like the price.

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SR: That has definitely been the case over the last couple of years. Now, one video that I saw you put out, you talked about the ug’s. I'm curious if you could share that I think our audience would enjoy that there's this idea that multifamily is the golden goose. There's no words, it's perfect, there's a lot of gurus out there selling courses, and there's a lot of people, even myself included, that have done very, very well in multifamily. But I think that sometimes people get caught up in the euphoria and there's a reality that you speak to quite eloquently, so I'll let you expound on the ug’s.

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BS: I'll talk about the ug’s. Multi-family, let me first say, on paper multifamily slaves the other asset classes, on paper. Multifamily has amazing numbers, amazing cap rates. But the thing with having a bunch of people packed into a building like sardines is that you start to get these three things called the ug’s, which is, the first one's bugs. That's the hardest one. That’s bad bugs, and these are things that are more prevalent in class C and below type of situations, which are really the only affordable things you can still buy in this market. But the bugs are going to be huge, because bed bugs can cost, I'd probably spend at least 50,000 on bed bug remediation. And this is again, nowadays I don't own as many units, I'm doing more private lending, but when I did, a ton of units and bed bugs were extremely expensive. Sometimes, you have to heat the whole building up and do a heat treat and you can't just treat one unit and then which tenant do you blame? Are they ever going to fuss up to, oh yeah, I was the one that brought the bed bugs? No, so the landlord gets stuck. And sometimes you can actually have negative cap rates on a building simply for that, which is crazy. So, your good tenants will quickly move out if there's any kind of a bug and you don't address it right away and spend all the money, your good tenants will move out rapidly, bed bugs will spread.

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BS: Obviously, roaches are much easier to deal with, you've got all kinds of other fleas and other issues, so those are just the first part of the ug’s. Then, you've got drugs. So, if you have a meth den burning in one of your apartments, guess what happens to all your good tenants when there's all these randoms in the hallway at three in the morning and their kids are trying to, whatever, the kids are on their way to go out to the bus, and there's a bunch of Math-hooligans standing in the hallway, you're not going to want to live there for your kid's safety. People, the good tenants, will move out, the drug problems. And then of course, you have cops beating the doors down, knocking down doors to get to people, and guess who pays for that? The landlords. Good luck collecting on the tenants, especially in a class C neighborhood. The other thing with the drugs is that when you have that many people coming in your common areas, funny things start to happen. Cam records start getting cut, your coin washer machines grow legs and they actually exit the building on their own, which I've had happen. They literally came into my building and stole my coin washer and dryer out of the building and cut the camera cords. I was like, wow, that's amazing. And then your dumpsters outside, when people are rapidly moving in and out of these units, and these math people will let anybody stay with them, your dumpsters are full of mattresses and all kinds of paraphernalia that's just ruining outside. And then I guess the last group of the ug’s is going to be the thugs. And so when you get infighting, which of course comes with the drugs, when you get infighting in your building and tenants are fighting each other and you're trying to solve a domestic dispute, you're trying to just tell the tenants, hey, you just call the cops because I can't do anything as a landlord, what am I going to do? Shove them with the baseball bat, solve this like, come on. (Can I join the fray?) No, so what inevitably happens is that the good tenants, again, the good tenants will just simply move out if you don't provide them with an immediate solution to that. And sometimes it gets so bad that you've got incidents where there's holes in the drywall, in the common areas where people have been fighting, the doors, they dash and kick in, and the people, oh, they lose the key to their door, they're just going to break into their own door and then say, hey, my unit got broken into. How are you going to prove that? Good luck using those cut camera cords.

So, the bugs, drugs, and thugs. Those are the main ug’s that occur in not just multifamily, but especially in C class and below. In dense, packed multifamily and lower, lower end areas. That's what I found. Yeah, I had some of that.

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SR: I appreciate you sharing that, so that I can totally relate to on every single one of those, there's a battle that occurs now, I think the key, and you alluded to it toward the end, is to identify what area you're moving into, You can, I've seen people do pretty well on C minus, D plus assets, but your opex is going to be quite a bit higher than if you just put that a mile away into this other part of town. You have to understand what kind of neighborhood are we going into? Can we attract the renters that will pay the higher rents that we're putting on our proforma? Again, multifamily on paper, it's awesome. One of the main reasons we're in it is because the business plan works, but you really have to be aware of some of those issues, especially around location. Because I feel like buying in the right location solves for the ug's in many ways. Bed bugs will go anywhere, you don't care as much if you're in a high-end part.

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BS: Lowers the likelihood, and then the thing is, if you hit it on the head, the OPEX is higher. And that's what people miss. They miss that. So, they look at the proforma and they assume that the expenses would be a similar expense ratio. You can't assume that. Sometimes the expenses are triple and your turnover is higher. People with a perfect credit score and a great rental history may not want to move into your building in that location. So, unfortunately, you're going to be stuck choosing between bad and worse as far as tenants go, which means you can still make money doing that. I know plenty of guys who have that as a model, but you just have to be very wary of your nickels and dimes that are occurring in the units. And there's so much more I could unpack with that, but that's the kind of the overall…

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SR: It sounds like to me, Blake, I'm not calling you lazy, but I'm saying you're smart, that you're trying to figure out how can I make money in real estate while not working as hard as other people potentially. And I'm curious on the private lending side, how did you happen into that space. And how are you leveraging that today?

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BS: What you just said perfectly encapsulates private lending. Well, that's truly why I started getting attracted to this and I didn't, it's not like I suddenly was like, oh, I just sold all my stuff, let me just start private lending. No, I stood in my first private loan in 2017, so it took me, concurrently while I was building my portfolio, so I was noticing that I just wanted to do it as a side thing. I've found a couple of loans that made sense to do, and it was just so idiot proof that I was like, why wouldn't I do this? But I wasn't really actively seeking them very hard. Then, right around the time that I sold all my units and I ended up with this huge cash surplus, I was like, well, why don't I just parlay this into something that's not so asked, not so in liquid. I wanted something a little more liquid, which for me, I thought private lending lends itself to that, lends itself to that a little bit more because the loans that I'm doing are very short term. So, at any given moment, any money I have loaned out, 'cause I do one year loans, is on average going to be coming back, on average, half of my money is going to be coming back to me, boomerang back in six months or less.

I consider that to be very liquid, and then my LTV's that I'm using, if you could call that LTV's are about half of what the property is worth. If our US economy goes down to half in six months, we're going to have bigger problems than my private lending. We'll be having an apocalypse, so with that being said, I see it as more liquid, I see it as more predictable, and I think that's the key. When I would have had 320 units and millions in debt, I had these massive bank account swings, that was the issue. Bank account would just, it would fly up. One month I was like, oh man, I'm Grant Cardone pretty much, and then the next month I'm like, oh my gosh, my bank account went negative $50,000 in a month. This is terrible. And this is just because of some of what you were saying, the opex, it can be massive. If you, and yes, owning stuff under one roof does save money because you have one roof to replace, but my bad Selby luck, it would have it that when I did have to replace that roof it is so massive, it's so expensive. That boiler system is so expensive that when you do finally have to replace that, it's not just a little house roof, you're doing a flat roof, a $50,000 roof or something. So I found that for me, a roller coaster, it was too volatile. So I said, let me make a more moderate return because I had quite a bit of money amassed at that time. I said, let me make a more moderate return, I'm not a super fancy person, so you probably won't catch me with a yacht or a boat or on a private plane, flexing like a Grant Cardone, you're not going to see me doing one of those things. So for me, my lifestyle is very calm and I don't need a whole lot of money for me to do well, and so I said, let me do something that's safer, more liquid, more moderate return, now that I've already built. Now, multifamily, I have to give it a lot of credit because that's what got me my initial explosion. But now that I'm sitting on a mid-seven-figure amount, I feel like I'm kind of at the point now where I can, I don't want to say chill out a little bit, but I can, (You can pick your spots.) yeah. It's easier for my staff to do, the way we have it structured now, it's much easier on my staff, they can, it’s just not as hectic as it was, even though we're managing a lot of doors and doing things like that. Systems are in place now to be able to do all these. When I was rapidly growing, boy, was that stressful.

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SR: So, your management business, you've got about 500 doors currently that you're managing, I assume for yourself and for other investors around, primarily single-family, it sounds like?

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BS: Primarily, yeah. I think it's 70-30. So I think 70% single family and 30% multi.

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SR: How do you guys solve or scale going into the single-family market?

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BS: I have friends with a lot of people who do short terms and they're very good at it, and I don't have a competitive advantage in that space. And so for me, I haven't chosen to go that route, but I commend anyone who does. I think it's an awesome model. My father actually enjoys doing short-term stuff, but me, not personally myself. Speaking to your question about scaling single family, Kind of like that's a funny sense to even say, right? Scaling single-family. How do you do that? I'll give you an example. I've got one gentleman that I'm friends with, he and I've done tons of deals together, and I'm financially involved in a lot of his stuff, but he's got about 140 units, most of which are single family, he's our largest management client. And his stuff is in Peoria, Illinois, and it's a city in Illinois, not too far away from where I'm right on the border of Illinois, Iowa. For him, all of his stuff is in one area. Well, now he can afford a full-time maintenance worker, 50-60,000 a year, who's a really good quality worker who's going to be able to go play Whack-a-Mole with maintenance issues all day. Most of these houses are only five minutes away from each other. By having them in a very kind of condensed area, I think that can help with scalability, but you're never going to be able to replicate the scalability of a multifamily building, because then you could have a superintendent living there and all this other stuff. Single-family doesn't lend itself to that as much. So yeah, single-family is hard, and I know it's difficult because on Friday I have to go stabilize a 47-unit house package in Freeport. I gotta drive to Freeport and stay in a hotel for two or three days. Package came with almost no financials, I've gotta deal with that for one of my investors, and I'm going to have to, physically. I could have an employee, don’t feel comfortable sending my office girls up to random people's houses. I'm going to go do it 'cause I can do it and I can do it over the weekend. So, I'm basically going to drive up there, stay in probably a short-term rental, and I'm going to drive from house to house to house to house over the weekend. Get everybody under leases, get all the tenant stuff figured out, all the maintenance issues written down so that on Monday I can just load my office staff up with all the issues and then they can handle it off in the office. So, all that to say, it takes a long time just to even drive to that many houses, you're spending 15-20 minutes in each house and you have 47 houses to deal with.

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SR: There's a lot of effort that goes into that. When you started. I assume some components of that was you had all your own assets you wanted to have control of, now you're representing about 20% of your total assets under management on the management side. How do you see the management company? I know some investors that become a business, a really viable, profitable business that they want to grow and they like the third-party model. I see some, where they like working with friends and family and managing their stuff, but it's more of a means to an end. You have a high-quality staff to command your own stuff, and it's more about controlling your own assets, which of those camps do you fall into and why?

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BS: We don't advertise. So, I'll say it that way, and we're very choosy with our clients. I don't want to manage for slumlords, I don’t want to manage for people that are not paying their bills. I don't want to be having my staff call every other day like, hey, are we getting paid? I'm not doing that. We primarily operate on referrals and the way that we do it, we’re not licensed real estate agents, and so to be a property management company or kind of an outfit that does that, you really do need to be licensed. And the main reasons are for the trust account issues, for keeping people's deposits, and so we don't do any of that. We have the tenants make the rent directly out to the owners, and so that avoids to the whole fiduciary portion of it. Same thing with the leases, the leases are going in the owner’s name, owners of company names direct. Essentially, we're just worker bees. We're doing all the grunt work of the management without actually collecting and putting our hands on the money, which is nice for the owners because it's super transparent. So, we're not nickel and dimming people, we're not keeping late fees, we're not charging on maintenance, the owners pay the contractors direct through us, of course. We don't handle the money in and out as much, so that's kind of a nice way to separate ourselves, but with that being

said, it's a very specific type of client that would want that type of management where we're not necessarily doing financial reports and things like that.

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BS: So we're kind of a hybrid between more of an employee/manager, but it works out great for us because we don't want to get into the, where we're having to try and be competing with these large management companies. We're small fish in that department. Actually, the management part of my business is all his part, and I tell people that and I say, hey, we have 500 doors under management, but that's the smallest part of the business. And they're shocked, they're like, how's that possible? But yeah, the lending is the passion portion of the business that, and you're right, the means to an end. That's kind of what management is. It's really just, you started managing my stuff and then a bunch of people like we're like, hey, can you please manage my stuff too, we're like, I will try. (For a price, yes.) We do pretty well.

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SR: That's fantastic, I've really enjoyed the conversation. As we're getting towards the end of the interview here, I like to ask, as particularly that you have moved and had success in several different areas, what's the number one thing that has contributed to your success beginning with the gym ownership and all the way through these different enterprises?

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BS: I think it's not being afraid to try new things. I think that's the biggest thing. I do some really dumb stuff sometimes just to try something, I'll allocate a very small amount of resources to this, I'm like, hey, would this work? For example, let me think of a really good example to give you. This is pretty recent, I had a buddy of mine, he said, man, what would it be like just tracking down, can't we just track down FSBO? Can we wholesale FSBO? And I'm not even a big on wholesaling, but I said, you know what? Let's find out. So, we spent a few days and aggregated some data, and I did some stuff and ultimately, we made some good connections off of it, but I could see it wasn't really scalable and it was only going to work if I was on the phone, it's not going to work with putting a VA on the phone and doing that, but it's fun to try new stuff.

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SR: For those that maybe aren't up on the vernacular, FSBO is For Sale By Owner, which is an interesting sub-piece of the residential real estate market. Oh, that's fantastic. Where do you think that came from? Because that's a fairly common answer that I get that, hey, don’t be afraid to fail, try new things, a variant of that is be curious, and I agree with all of that. But what inculcated that into you? What do you attribute that to?

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BS: I think it goes back to just all the weird things I've tried to do, like music. If somebody was like, oh, you know, I know Twister through his manager and I was like, oh really? I was like, I'd love to do a track with him. And they’re like, Okay. And I was like, Okay. It's just, we just worked it out. And I think it's one of those things, I didn't know how to do a music video. Right. What do you do? So I just was like, Well, who's the best music video guy? So, I just asked around and we just got this amazing video. It's like so much learning goes on, but, yeah, what is the factor that made me like that, I'm not sure. I’m not sure what it is. But the willingness, I think as long as you're just willing to try stuff and don’t be stupid, don't put all your eggs in one basket that you had, that’s unproven. But see what doesn't work. Sometimes by process of elimination, you can see what, throw a bunch of stuff on the wall and see what sticks. Right?

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SR: So, as you look back, if you were to meet somebody who's 24 years old out of college, has maybe sowed their wild oats and they're ready to get down to business, and they wanted to get into real estate, what advice would you give that person?

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BS: Best advice is to figure out how much time you want to put into this. Okay, so if you want to be extremely successful and you don't have a ton of money, you're going to have to put in a ton of time. And if you want this to be a hobby, you might consider a little bit higher classed up, it's like already finished, that is performing well. Maybe get a property manager and that's if you want your main job and then real estate on the side. If you want to go full force into real estate, just remember that we're at the top of the market right now, and so keep that in mind when you're buying assets that we've had this luxury since 2010 basically, of having a market that looks like this, always going up in a linear way. Well, what if that market looked exactly the opposite. I think that real estate would be a much tougher investment, so just don't always rely on current market conditions, you need to be able to brace for a potential downturn.

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SR: Fantastic. Well, thank you, Blake, for joining us today. A pleasure to have you on, thank you to our audience for joining with us as well, I hope you enjoyed this interview, feel free to reach out, like where can people hook up with you online?

0:28:03.0 S2: Easiest place is selbyrentals.com. That's my website, it has all my contact info, all my social, all my YouTube.

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SR: Thank you everyone, for joining us. Have a great rest of your day.

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