

EPISODE 1247

[INTRODUCTION]

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Jake Harris (JH): My experience was investing in distressed real estate, going to foreclosure auctions. That develops a certain level of due diligence and appropriate research that you have to do because you don't have the full picture in which you're investing into.

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Whitney Sewell (WS): This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today our guest is Jake Harris. Jake is the co-founder of Harris Bay, a real estate investment company. He started out in commercial construction as an estimator, superintendent, and project manager, then transitioned into buying properties and rehabbing them for short-term profits. Over the years of his investment management, Jake has been responsible for \$200M+ across 100s of transactions.

Jake talks a little bit about a large fund. They purchased 1,200 assets in 23 States. It's so impressive, pretty impressive. And he talks about how tech is disrupting how we used to do things, and how that's helped him to do things like I build teams around, you know, different parts of the business so they can scale. And I love some of the quotes he brings up One I wanna tell you, default to the level of your systems. And I want you to think through that a little bit, even goals are great for winning once. But how systems are there to repeat those successes. And so, a big proponent for systems, I could not agree more. It's incredible, his story. Being a millionaire before 30 but losing it and coming to where he's now. He offers you an amazing deal at the end too. He ah this due diligence course that he sells but he's cutting that in half for the listeners of the show. So, I hope that you will take advantage of that and take up on that so you'll know you're doing proper due diligence. I know you're gonna learn a lot from Jake today.

[INTERVIEW]

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WS: Jake welcome to the show. It's unfortunate that we were at the same mastermind a few weeks ago and we didn't get to meet in person, or even record an interview in person. But I'm You're doing some big things in this business and so I'm looking forward to hearing more about that.

Tell the listeners a little more about who you are, and maybe your current business model and we'll dive in.

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JH: Yeah, it was unfortunate we didn't get a chance there were a lot of people running around and a lot of things to do. My name is Jake Harris. I am the managing partner of a boutique Private Equity Real Estate Company. We primarily invest in secondary and tertiary markets. I say that you know, that used to mean like Austin, now that's maybe kind of moved to a core market. We do commercial, real estate. we do development, we do land assemblage, we buy distressed assets, and we reposition them.

We've also in the past, I say past life, but it was really what kind of got the old origin of starting this is put together a very big, distressed, opportunistic fund, where we bought 1,200 assets in 23 States through a blind pool fund. Again, just kind of private equity models, and that's been kind of my experience was investing into distressed real estate, going to foreclosure auctions, that develops a certain level of due diligence and up appropriate research that you need to do because you don't have the full picture in which you're investing into. You're buying something at the courthouse depths, not sight unseen. Sometimes I was like "I don't think we bought a whole lot of stuff site on scene." But you didn't maybe get to see the insides of it, you didn't get all the financial disclosures that require a very, very intense level of research in a small window.

And then, obviously, I wrote a book about that. During Covid, when everything closed down, I wrote a book called Catching Knives: A Guide to investing in Distressed Commercial Real Estate. I anticipated that there was going to be a bunch of distress.

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WS: Interesting. I'm looking forward to talking about that summit and I wanted to, you mentioned a large fund focused around distressed real estate. 1,200 assets in 23 states. I mean that just sounds like a massive accomplishment to me. There are a lot of moving parts in making something like that happen.

Speak to some lessons learned around operating a fund of that size, and maybe even acquiring, you know, a number of assets like that.

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JH: Yeah, it's it is a crazy thing to do, I think probably having some naivety into it, and a small team that just felt like we could do anything and everything was you know a challenge. But it's also technology is disrupting in eroding so many other things that it allowed us to put together comp sets. We've also, kind of specially built a team, so I have some guys that head up my acquisitions from a title company. They used to do this for first American title was, they ran the distressed foreclosure kind of title department covering all of the State of California. And so they are seeing thousands of transactions a day. And I used to talk to them all the time, and so then I was like "Hey, why don't you come to join me and we can do this on a bigger scale," but still less volume than he was doing every single day.

So what I say, the lesson learned is real estate's a team sport. It is not how good I am, or collectively individually one person. But if you can put together a team and then utilize technology where it is in a time, in an era that has been rapidly disruptive and transformative, especially for the commercial real estate space, residential obviously, you know, you see Zillow and some of these other I buyers coming out and buying at scale, and it's a challenge. I think they boast billions of dollars. They could have just given me like at least a couple of million and I would have told them the model that they were building off of a testament is going to guarantee to lose you billions of dollars, and they could have just paid me a couple of millions of dollars and that would have solved their problem.

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WS: You would have given them that insight, right? It's interesting yeah, all that happened over the last 2 years, and what was thought to happen. Speak to I mean you wrote a book around it,

right? And I appreciate your willingness to talk about that. I mean just put it out there. They may be forecasted these things, but that didn't happen.

Speak to some lessons learned there, maybe how you move forward with what you've learned over the last Covid pandemic.

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JH: Yeah. And so there is, the book's theme was, you know, distressed commercial real estate. There is actually distress in all markets at all times. The market goes up to the right it doesn't mean that every deal works out. And so, the fundamentals of investing in distressed real estate using a team sport, putting together and doing their homework before that actually goes into distress. Those are key factors that people should be learning because commercial real estate they have some scarcity, even to the title of the book *Catching Knives*. Some people may know this, others may not, but the term *Catching Knives* is a kind of investing stock market term – is to avoid catching falling knives. And so usually what they say is, just wait till they fall and hit the ground, and then you can go pick them up, don't try to catch them.

That works really well if you're trying to buy Tesla stock, you know, and it takes a 200 point drop, you know, goes from 4.20 to 69 and you can go in and buy it up you know and you're like all right let's hit the bottom, let's go. Commercial real estate has scarcity. There may be only one building that is going to sell in your downtown once a generation. So, if you haven't done your homework on that, you haven't researched it, when that window does happen, it may be so small and so short that you miss the opportunity.

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WS: That's interesting to think about. Even the thought of “Hey, this proudest building maybe you have your own may maybe only transact once in a generation or lifetime.” But missing that opportunity, how do you move forward? You know, with a better understanding that you don't miss the opportunity.

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JH: Putting together a team, getting prepared, for me oftentimes I'm an outsider to the market. I'm not on that inner circle. So, having more information is my kind of superpower,

determination to get the absolute most information that I can possibly have. Sometimes that's a negative like you're going to find out things that you don't want that other people are going to overpay because you're like "Oh, my gosh!" That could be a benefit is that you avoided a potential disaster or buying something that was problematic. And so information, information, information, and then it prepares you to create those action items. Because when, and especially for like what you're talking about real estate syndications when you're raising money from outside people, there really is essentially putting trust into you, into a story of the future of what it's going to be.

And so you have to be able to convey with a certain level of confidence, I hope a level of sophistication, but something that you're conveying to these people that you're raising funds from is that the future is better because of X, Y, and Z. And then when you have that information that you can put together and it's in a concise and consistent order and says, here's what's happening here's why this is going to be different, and this is how the future, and this is how I'm going to return your money, and this is why I feel confident in that X, Y, and Z. Again. I think most people can understand that it's it's difficult to predict the future. Many of our deals, we did not underwrite any epidemics, we had no pandemics into the underwriting, you know, and obviously there was a global collapse or at least a pause button, I thought there was going to be a whole lot of distress. And it turns out the government printed 20 trillion dollars in all real estate, tripled in value. So it's like "man, that kind of went the other direction sweet."

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WS: Yeah, some of those things there's no way to know for sure, right? I mean you do have to make your best judgment move forward sounds like that's what you did. I don't blame you one bit. But you know I like how you talked about having, you said having more information is your superpower, and I think I mean the knowledge is power. right? Ultimately. And, you talked about, you and I briefly discussed your due diligence course. You know the research, the level of research that needs to be done.

And, speak about that level of research and maybe some things that help you to gain that that level of information that we all need before buying in a new market.

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JH: Well, I think one of the key things is that in real estate, I'm gonna compare this to the stock market, is in real estate you have a free option. So what does that mean? In the stock market, you can buy an option, and I can exercise the price at this future valuation, or I can buy it and strike at this even if it's worth twice as much money and that's how you make profitability. In real estate, when you put a property in escrow, essentially what you're trying to do is eliminate all of the potential variables of screwing yourself up as far as, and so the due diligence becomes very, very important to eliminate the risk of this deal.

I see a lot of people that jump into deals, and then once they get it in escrow and they're like "great!" Now, let's just close and they close and just hope and pray that nothing bad comes up into the future, and it's like "No, no, you're thinking of this the wrong way." This period is a very hyper-focused time and when you're trying to blow up this deal to find out all the variables of the things that potentially could go wrong, that you now control, that you now have the opportunity, free is kind of a quasi term because you're going to pay for inspections, you're going to pay for engineers, you're going to pay for travel out there, you're going to pay for people to check out those things, but you have a \$10,000,000 building in contract, you do tens of thousands of dollars worth of inspections and stuff, you don't like the deal, you can just walk away and get your earnest money back. You get your other things, and so you essentially have a free option on real estate.

And so, as you said, I just put together a net lease due diligence course, I'm calling it the Don't Go Bankrupt Net Lease Course, because people are just randomly aping into these deals. They're never visiting the state, they're not physically walking, you know, or driving around the neighborhoods. And so I have a checklist, a 72 item checklist that I go off of and the reason I use a checklist is the same reason that pilot uses a checklist or a surgeon uses a checklist is that the downside risk of surgery going wrong or a flight going wrong, as people die. You know this is like you're not going to die if you buy a bad real estate net lease deal, but you may feel like it. It may be years and years of misery trying to unwind or paying into a crappy deal that you bought because you didn't do a few things on a checklist, and so that's what I kind of walked through is here's what we do during that time period.

And again, it's not for me to be able to remember every single thing that you do. It's a checklist. How can you do this consistently over, and over, and over again, is having a system

in place. And this is where some of the other things I brought up in the book are. I became a millionaire before 30, and I lost it all, subprime meltdown. I'm sitting on a street corner crying "dear Lord, can I be worth no money, because I have a negative net worth, and I want to start over at zero, wouldn't that be awesome?" To take that and then use some of those lessons because I didn't have systems like James's clear atomic habits. You default to the level of your systems, it's great to set out a goal for a direction. Put together these systems. Those are some of those lessons learned that I had to go make some of those mistakes, and I hope that I can convey them out there to others is don't make the same mistakes I did. They're effective teachers making mistakes, but true wisdom is using other people's mistakes and knowledge and then skipping over those.

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WS: I love that quote you said that's out of atomic habits you default to the levels of your systems.

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JH: Yes, so its goals are great for winning once, systems are for repeated and predictable success. And so what it means is that just like willpower, your goal is kind of like willpower, you can grunt towards this doing it one time. But then, if you're systems or there's no system, I had no systems, and so I defaulted to laziness, I defaulted to not effectively repeating that success, what does that do? Well, if you're putting together syndication, do you have a marketing team, do you have KPIs for your investor relations person? Are you consistently reaching out and communicating to your investors? Do you have consistent content from a blog or a podcast or other things that are creating and bringing in new people into your world that could potentially invest in your deals? All of these things matter because they're all systematized and then it's just a matter of, you know, scaling that.

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WS: Give us one or two systems that you've put in place that I have just helped you to scale, helped you to go to the next level that, maybe you see others that just do not have.

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JH: Well, I think it's probably, I wouldn't say others don't have, I think I'm slower to learn and so it was doing the book because that certain thing is I told you and you know this is when you put together syndication, it's you're trying to build up a level of trust with someone, and that often time takes many touchpoints until someone feels like "Hey I like this person or I like the way that they think they've conveyed appropriate professionalism." And so a book was one of the starts of this. And so when I thought of this is, how can I help convey this out here to more people?

And my biggest challenge was obscurity. I can be the smartest person on planet Earth. I could have the greatest idea. But if I just sit alone in my office, and people, you know, they're not going to find that. And here's one of the things that years ago I discovered, I said, you know the greatest invention of mankind, what would you think the greatest invention of mankind is?

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WS: The wheel.

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JH: The wheel was not used as a wheel for several thousands of years. It was used as a pottery wheel. They didn't know, nobody decided to put it up on the thing, and make it a wheelbarrow, or make it a cart or something like that for thousands of years. So the greatest invention of mankind was not even used as the wheel. And so what it is is that you need to put that out and project out into the world. So for me, that was the big thing is I just thought if I'm really good at putting together all this collective information, people will just find me. Those will find my deals. they'll just find the way they'll randomly walk bar in the street, and be like, "Hey, Jake, do you have a multifamily deal in a sunbelt region that is delivering a 15% IRR or great? Excellent here's my money." The reality is that doesn't happen. And so, I had to put together those systems to amplify that to create them, to show what i'm working on, putting that, putting it out of the podcast, communicating, going out and talking to other people like you, talking to like-minded individuals and sharing what I'm doing and how we can collectively help each other.

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WS: Jake, do you have any predictions, from what you've learned, I mean any predictions for the next 6 or 12 months in the real estate market?

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JH: It's going to go up, it's going to go down, it's going to go left, it's going to go right. You know it's really interesting. I believe we have undersupplied housing, you know, or residential units, massively. You dive into the details of this in 2007, 2008. There were about 4,000,000, too many homes, too many residential units, apartments, houses, they've overbuilt the country. And somebody looked around and said, "Oh, my gosh we should not have built this many apartments and houses, and the market crashed." They've been underbuilding the market's demand for now 15 years, and so there's net about a million units a year that we need just from population increase and immigration. We built half a million, 600,000, 700,000. So, it eroded away from that surplus and we got to an equilibrium in 2012 on that pricing.

Well, if you've following real estate, 2012 is about when real estate prices started going up, up, and up, they were going down until that price, and then they started going up since 2012 and beyond. Well then we have not been able to keep up and so we're back we're on the opposite end of the spectrum. Right now. we're about 4 and a half maybe 5 million residential units short today.

Interest rates can go up, they can go down, they can go, you know, whatever, but people still want to buy houses and are forced to buy houses, and willed. I mean, when interest rates were 18% I was talking to my dad he's like "Yeah, yeah, my first mortgage, I was like 15% in the 70s." He's like, we bought a house –

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WS: And they were happy to get it.

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JH: Of course, and so it is like some people think, "Oh, if interest rates go up the housing market's going to collapse," and I go "I don't think so." Now, does that put constraints and pressure on some market home builders who are struggling right now with construction costs? Our development projects. Man, it's difficult with supply chain issues right now.

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WS: Yeah, no, it's interesting to look back, think about interest rates over time, and yes, at my in-laws talk about their first home, very similar. It's like 15-18% interest rate, and then, my father and all say, yeah, we were excited. right? I mean to have it. So it's neat to think about that versus where we're at now with these all-time lows that we're so used to or expect to continue.

And so, Jake how does that change how you move forward? You know, as we think through interest rates? Or do you have any insights around what you expect interest rates to do, or how you're underwriting deals based on that?

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JH: Some interest rates increase, maybe 150 basis points. 200 basis points on the outside, depending on when we plan on refinancing or getting to kind of stabilization. Most of our stuff is developments or redevelopment. And so, we kind of look at that and try to time. We're going to try to overshoot whatever that is that we think the market just because we want to underwrite to a more aggressive or you know a conservative underwriting. That's another thing that I see people do, as far as making mistakes is, they bake out their pro forma on the best-case scenario like they have to hit top market rents, they have to have record low-interest rates, they have to have, you know, just all these things line up 3, 4, 5, 6, different variables and then they'll hit their deal returns. And the other way is like, what are all the things that can go wrong? And because probably one or two of them is going to go wrong it, just something is going to go wrong, or it's going to be something that we're not even predicting like a pandemic. And then, when we underwrite that we have the ability and flexibility to weather that storm.

So planning and higher interest rates, what does that do for our hold? Also coincidentally, you know, baking and higher construction cost, and we're carrying on like some of that additional material. And that's a tough one to protect.

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WS: Yeah, of course, none of us actually know what's gonna happen tomorrow or next month or next year. But, we do have to make some predictions right and be as prepared as possible, and I just appreciate you being transparent there and sharing some of those things, and how you look at them. What's your best source for meeting new investors right now?

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JH: Well, I would say things kind of like the mastermind, getting into meetups. People are meeting in person again. I think that there's been a lot of pent-up demand of, you know, meeting and obviously, we talked about inflation. There's real estate is a very good inflation hedge. We're actually we're building a hotel on the riverwalk in San Antonio. Talk about an unbelievable inflation hedge in hotels, you're resetting the room rate every single night, whereas you know, before having super long lease terms, was like the darling, I want something with ten-year lease terms with 2% baked in. Right now, other people are like "I don't know if I want a lease with 10 years with only 2%. It's 7% last year." Well, hotels reset that room rate every single night. So the fact that you can get out, do meetups, I don't know if there's some virtual you know kind of things like that happening but that it seems like there are some of those. I would say just you know, getting out and meeting people has been the biggest and best, or at least the most productive I think I can probably meet more people online, but those that can collectively connect into our world have been less than those that we've met in person.

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WS: Yeah, no, I think you said it well, it's like that pent-up demand for meeting in persons like man. So many people want to get back to meeting in person and I've loved being able to do that over the last month or so at different events. it's obvious that people desire that and you know you think you get the nail on the head, too. It's like, yes, you can meet more people online or a higher number, and with greater frequency may be, however, such a different relationship that's built right I mean it's so different when you can actually have that conversation face to face.

Jake, what are some daily habits that your discipline about that have helped you achieve this level of success?

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JH: I started putting more systems in place, and obviously so I get up. Well, I go pee first, and then I brushed my teeth. Brush my teeth, and then I do 20 ounces of water with lemon and Himalayan Sea salt. I work out, at the finish of my workout I read my daily or my vivid vision. So I have kind of mapped out in a statement all the things in my life that I am wanting to manifest into the future. Reading the book Cameron Harold's Vivid Vision is helpful towards that, creating a lot of specificities around what is it that you're wanting to achieve usually. And then I take my kids to school in the morning and get off to work in the middle of the day. And that work environment is somewhat I wouldn't say chaotic, but it's just I don't know what I'm going to do each day as I come in, that's kind of the reactive and then I'm started doing blood work, tracking my blood work with David Sinclair's group inside tracker, and then that is also put in together a certain regiment of vitamins, vitamin D, some garlic, oil, some other things like that that are kind of missing, and then tracking sleep and getting into in the bed and appropriate time, which is somewhat challenging with kids. Small kids. You kind of got a rustle of them down to bed every single night. So we do, we read the Bible every night. We do a puzzle or a quiz kind of thing on Amazon. We do our prayers, and then we do, we call it I call it Hudson Mavic adventure so I lay in bed with my boys, and we talk about their adventures, and they alternate putting asleep music song from headspace, and then they talk about adventures until they fall off to sleep. And so then that becomes, I've bracketed my day with these little routines, and then I tried to, and then I tracked my sleep – of how much sleep am I getting? What is the quality of that? And those things have at least put together some of the systems that I can consistently have high energy and perform day in and day out and adapt to a changing environment in whatever life is going to throw at me.

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WS: That's incredible. What's the Himalayan sea salt for? What does that do? Like first thing in the morning.

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JH: The lemon juice and the sea salt, give some minerals. Your body is dehydrated from sleeping for 7 hours, 8 hours. It immediately triggers your metabolism. The Himalayan sea salt is because it's iodine that's missing, and the Himalayan it's not contaminated so it's higher up in elevation. So it's more of a mineral.

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WS: That's incredible. I also drink quite a bit of water in the morning, very first thing, and before I had my bulletproof coffee.

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JH: I do intermittent fasting as well, and so that's kind of like gets the body going. It's everything moving.

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WS: How do you track your sleep?

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JH: The aura ring. So it's a ring, so it comes up, and it tracks on my phone, and usually, I'm checking that first thing in the morning. And it tells me how much sleep I got the total time in bed, total sleep, the efficiency, my resting heart rate efficient. You know restfulness, how much rem sleep, how much I moved, temperature. One of the things is like, Were you too hot? Were you too cold? What is the heart rate variability? So you can also say like it can come up and be like, "Hey, something's going on." Maybe you're starting to get sick and so then it's like you should spend more time recovering, or take it slower or easier.

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WS: I use an app but it's just called Sleep Cycle. There's actually a free version that seems pretty cool, but that seems much more intuitive. I would actually be wearing a ring or something that's tracking those things. I am just interested in some of that myself as well. Jake, how do you like to give back?

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JH: Well, I try to help people get into commercial real estate. That's been part of one of the biggest things. And actually why I created that net lease course was had a lot of people reaching out to me, and I would say it was, tens of people, not hundreds. But I have limited amounts of time in which I can effectively do that. I am happy to help people out. Part of writing the book was a little bit of a right to the younger version of myself, young Jake, throwing down the rope to convey some mistakes that I've done throughout my life. I wish there was some of this information, or collectively, you know. Now with Youtube, there is all that information it's but now to fire hose of information. The way that I can concisely share that out with others then I tried to do that. And then, obviously, I have some personal things that I do with the church giving back. But to me, that has been one of the most impactful things to see – someone not lose a bunch of money or they were able to renegotiate a deal to better position themselves if something goes wrong in the future they're just better positioned. That's been rewarding for me.

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WS: Jake, tell the listeners again about your course on due diligence. It's such an important part of the process, of buying real estate. I mean, a lot get that wrong. You just messed up as you mentioned. It could take years to get yourself out of the hole you created and do that properly. How can they learn more about that course?

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JH: We mentioned catchingknives.com is the main website. There's the course up there and actually, I wanted to give back to you or at least to your listeners, they can use a code, we'll be really original here. We're gonna call the code is – Whitney. So they gonna be able to figure out how to spell Whitney. I'll give them 50% off on that code. That's a thousand dollars for that course, we'll discount that out by 50%. If somebody uses that in the next couple of weeks from the airing of this, they can get in. You know, we give away a lot of stuff, a due diligence checklist. We actually go through pro forma, building out a pro forma, a lot of the examples at the back of the envelope. And then we have one group, one guy, he did close one of his deals. He said he was kinda overwhelmed because he said he maybe did 20% of the things that he

should have done before he's already closed. So these are the other sides of closing a deal, it's like "Oh no, I hope this other 80% of things don't go wrong." So, he's now retroactively trying to implement to check those things off his box. As said, very, very valuable.

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WS: Awesome. Jake, I appreciate your willingness to give back in that way, even having you on the show today, getting to know you a little better, hearing a little more about your story, millionaire before 30 losing it, obviously coming back and putting better systems in place. Sounds like I just appreciate the yeah, the transparency, the willingness to share from your losses and experiences. And what you're doing now. I love some of the quotes I mean you default to the level of your systems, and the goals are great for winning once, and with it, like systems, are there to repeat the success. Is that accurate?

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JH: Goals are great for one-time success, and systems are for repeated and predictable success.

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WS: Yeah, I love that. So, Jake, it's a pleasure to have you on the show. How can the listeners get in touch with you and learn more about you?

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JH: So the main platform is catchknives.com, so that's where you can access the course you can get on our mailing list. So you're going to see our blog or content you can order the book on there. We're putting you know more and more things collectively through that catch knives. I'm most active on Instagram, @jake.realesate, where I communicate out there. I'm sure there's through that catchknives.com you can find YouTube channels and other things that exist out there and then our company website, harris-bay.com.

[END OF INTERVIEW]

[OUTRO]

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