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[INTRODUCTION]

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Tommy Brant (TB): It was the last week of the due diligence period that we canceled the contract outside that we found out about it probably three weeks before. And I say we as in the broker, the buyers, the sellers, like we all kind of discovered this situation together while we were under due diligence. And it wasn't like there's anybody withholding information. And it was quite the discovery process, and I'm really thankful that we didn't have our money down, then it would have become a really expensive experience. It's kind of evolved my perspective on hard money, you know, non refundable, earnest money deposits to get into 100 plus apartment deals. I think I have a lot more scrutiny behind the owners. And did they have the business plan? Did they execute it? Do they have boots on the ground? You know, I'm starting to scrutinize more of the previous owners and not just say, 'Oh, this is a nice asset. I want to get it under contract.'

Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today our guest is going to share about a failed project. What a letdown; what a disappointment! This had to have been for him but he's gonna go through some things that were crucial and figuring out that, man, we should not do this deal. You're gonna hear about red flags about the seller, things that you need to see as you're dealing with other owners and as they're looking to sell their projects, man, this may not be something you want to move forward on because of these things we're seeing. A bit and also he has a unique way of direct-to-seller marketing. I don't think I've heard of before, so you're gonna hear all of that today along with a few other things – that habits and things you know, always ask about. I love just self-improvement. I love helping all of us improve individually within our businesses as a whole, even some other conferences and things that he's had success with. But our guest today is Tommy Grant. He calls himself a recovering electrical engineer and data scientist turned full time real estate investor. He started TB Capital Group as a tool to buy real estate with family, friends and partners. He helps busy professionals accelerate their wealth through passively investing in real estate. You're gonna learn a lot from Tommy today.

Tommy, welcome to the show. honored to have you on. I appreciate you sharing that you are a longtime listener as well. You are our long-time listener and honored to have you now as a guest. You and I briefly got to connect at the best-ever conference earlier this year. And so, welcome to the show. Give the listeners a little bit about yourself, real estate and what are you doing, where maybe where you're located, and let's jump into this quote, failed deal and some things that we can learn from you.

TB: Sure. Yeah. Wendy, thank you so much for having me on. I'm both honored and humbled to be here. It is pretty interesting to go full circle from listening to now being a guest on the podcast, so it's quite serendipitous whenever we ran into each other at our best-ever so glad to be here. Tommy Brant. I am based out of the Nashville area. I'm a recovering electrical engineer of 13 years. I went full-time in real estate last August and so primarily around apartment syndication, although I'd have some long term rentals and dipping my toe in the short term rental self management space there as well.

I guess how I kind of got started in real estate was [when] I was a sophomore in college and I worked for a friend of mine's dad, who was a general contractor, and he made mobile homes rent-ready. So we're in Middle Georgia at the time, and about 15% of that demographic was post evictions. So, we're coming in at some of these units and there's trash everywhere. There's used diapers in the corner, there's hypodermic needles everywhere, and the utilities have been cut off for weeks and you're planning who's going to open the fridge. Through that you do a couple of things when you build character, definitely one. But two, you kind of build a vision.

So knowing what the end product is gonna look like through all the clutter gave me a lot of good experience. And then in 2011, I bought my first home. It was a short sale in a Nashville sub-market. And then, it was a slow live and flip. And I rented it out of [the] bedroom before I knew the house I can close to a colleague of mine. And so that kind of gave me my bearings in the real estate space. And then, whenever we liquidated that property in 2020, it was a matter of getting educated and I saved more money, more problems. I was like what do I do with this I needed to work for me. So getting educated was a big part of that. And then in a six-month time period, I bought three long-term rentals. Since then, I've invested in two apartment syndications. And then we close on a short-term rental down in Panama City Beach, Florida.

WS: Nice. Wow, you're moving and shaking. That's for sure. If you say the least, I want to jump into this 52-unit deal that you call the failed deal, but I doubt it was really failed. Obviously, you shared a few details with me. But no doubt you learned a lot. And I would say it's probably [a] success that you didn't do it based on what we're going to learn today. But let's dive into that project and give us some details about the deal. Maybe why you liked those things and we'll dive in deep.

TB: For sure. Yeah, so that would have been my first deal as a co-GP and what validated my decision to go full time in real estate and build a business around multifamily syndication. So it was definitely a bit of an emotional roller coaster. But thankfully, we had some veterans on the deal with us to kind of help guide us and defuse the emotions out of the situation and be like, 'Look, this is what's going on, and this was what we need to avoid.' So, the history on that one. So that was we've been building a broker relationship for several months here locally in Nashville and then we ended up getting wind of the pocket listing, kinda of had a good idea of who else was getting wind of that pocket listing. We kind of assembled the team, brought value to them by doing a lot of the upfront market analysis and underwriting and say If this looks and smells like a good deal, what do you think? And so he got it validated, he brought in some of the remaining team members that we need.

And so within a week's time span, we had gotten wind of the deal and had it under contract. And to me that's fast moving. So, just knowing that something exists to now having an executed contract, that was really exciting, but I couldn't have done it. If I wasn't networking for several months, and I didn't know my market inside and out, that's definitely a prerequisite to getting any apartment deal under contract. That was kind of the history of it. That was a sourcing. So as a pocket listing from a broker, we had a lender lined up. We went through physical inspection; there were some surprises along the way. We were able to talk through those and negotiation, and we got pretty much everything we asked for. And that one, what really kind of killed the deal was the accounting side of things--the things that people don't think about.

So, the P&L that was put together in Excel, right kind of indicated that there wasn't a lot of outstanding balance, things were doing well. That property manager franchise that hired the onsite property manager was actually a tenant at the apartment complex, and they weren't really getting a lot of scrutiny behind their operations. They stopped paying rent for a couple months, said, 'Oh, hey, buddies, you know, you don't have to pay rent.' And he wasn't getting caught; was coaching their friends on how to not pay rent. This went on for about a year. And so, there was $127,000 on outstanding balance, rent and delinquent rents for the property. And so we brought the lender up to speed and he said, you know, what are our options here? And so he said, 'Alright, well, you're 80% loan-to-cost just went to 60% loan-to-value.' And so that's really close to like new construction, as if like, there wasn't an asset there to begin with.

And so it's just like, Okay, we probably could have still done the deal and pause distributions for 12 to 18 months while we went through this eviction process and release and got new tenants in there. But in terms of other options, we could have done a master lease option where we didn't really transact. But we said, we're going to take over the property, but you promise to sell to us at this price and you know why a given date, but there's too much risk in that because we didn't really know that person. They weren't local. God forbid, they get hit by a bus, and their kid said, 'Oh, by the way, I don't want to sell this. And you know, sue me.' There was just a couple things that was outside of our risk tolerance of the fact that a fifth of our capital, like quadrupled and expense. If you compare it to what we would have gotten an interest rate from a loan to the returns we're underwriting for our investors, I guess that's kind of the whole history from the failed deal. But thank goodness, we have mentors and that when they kind of ensure that we're looking at return on effort, you know, do we want to be running through the mud waist-high in this, you know, six to nine months from now, when maybe we'll be under two other deals that are just going way easier?

WS: Speak to the timing of when you learned about the obviously, the large delinquency. Where were you at, in this process, you know, disclosed or not, or when it was disposed, or how you know, how you all walk through that.

TB: We were still within our due diligence period. So we had put down earnest money, it was refundable, because there was just hardly anyone this deal was was sent out to. So, it was about the last week of the due diligence period where we said, Okay, we have literally everything else figured out, let's hone in on these outstanding delinquents. And so it was the last week of the due diligence period that we canceled the contract outside that we found out about it, about probably three weeks before. And I say we -- as in the broker, the buyers and sellers alike -- we all kind of discovered this situation together while we were under due diligence, and it wasn't like there's anybody was withholding information. But it was quite the discovery process. And I'm really thankful that we didn't have hard money down, then it would have become a really expensive experience. So it's kind of evolved my perspective on hard money, you know, non refundable, earnest money deposits to get into 100 plus apartment deals, I think I have a lot more scrutiny behind the owners. And did they have the business plan? Did they execute it? Do they have boots on the ground? You know, I'm starting to scrutinize more of their previous owners, and not just say, 'Oh, this is a nice asset. I want to get under contract.

WS: Makes a ton of sense, no doubt about who that salary is. Right? I mean, the level of professionalism that they have, or the level that they operate at professionally, and even down to how they're treating their employees and their tenants and all those things. Because guess what, you're inheriting a lot of that culture as you take on that project. But you know, you mentioned you didn't have hard money down, but it was under contract. And so what was the process there when you were gonna have money down? Or what did that look like? Or maybe you had some earnest money on but it wasn't hard?

TB: Yeah, in terms of the due diligence period, I guess we kind of structured it as a 30-day due diligence period, and then another 30 day window there. And then we put in the ability to purchase 30-day extensions based off of 0.25% of purchase price. And so that would help us navigate if there were any issues with the loan, stuff like that. But the due diligence period doesn't start until we get all of our documents. So it was kind of how we worded it in the contract there. And so while it took about three weeks for us to get everything up from the previous seller, and so while we were doing that we were talking to the property manager, we were lining up, roof inspections, plumbing inspections, building inspections. And so, really the day of due diligence started the day that we were doing our inspection. We were on site, so we were very quick about assembling everything in order. Are you making sure we had the ALTA survey appraisals done? Yes or no? That type of at least ordered?

WS: Yeah, that's great. I think I appreciate that. It's helpful just as a listener to think about that process that you all took. What were maybe red flags that you started to see about the seller? When did you see them? Maybe some lessons learned around working with the seller? You know, you mentioned like, that's something you're a personal due diligence on before you even think about the deal. What were some of those lessons learned? And what did you see in the seller?

TB: Yeah, I actually really liked this question, Whitney, because there's a number of red flags that we should have kind of expected something to pop up. But I guess one example was, they didn't really have a team, that was probably the biggest red flag, it was just a solo owner that had syndicated. I don't know if there were maybe people in the background that they had, you know, maybe mentors, kind of guiding them or whatever. But there was only reference to one managing partner in this deal. And so that was pretty interesting. So they didn't have boots on the ground to tell them what the onsite property manager was or wasn't doing. They weren't getting any feedback about the property outside of what was being given to them by, you know, the onsite, PM, the other, I guess, kind of glaring part to me, but I see it all the time, is they didn't execute any value a. They've owned it for about two years, and the inspector that we hired to inspect this property was the same inspector that inspected it two years ago when they bought it. And so the inspector comes on properties he's like, 'I could probably just resend you the same inspection report, you know, that I used two years ago.'

But he was just like, everything -- all the red flags that I pointed out -- are still existing, and they've advanced in severity. And so just knowing that there was there wasn't anything executed that like he didn't add any. Generally speaking as a multifamily syndicator, I'm thinking you add value to the common areas. First, let the tendency that you're improving the place before you do interior renovations, so I'm thinking order of operations. So they're saying that like, the foundation issues, or subfloor issues have been outstanding for multiple years. There's like entire tiles missing and breezeways, where you know, kids could fall through; the handrails have been loose for Lord knows how long and there's like a solid crack down one of the foundations. It's not like hairline across the cinder blocks and stuff like that. And so the couple instances where there's just been neglect, and it's just like, this needs like a capital injection and needs to be addressed. And you should have done this two years ago, by the way, when it was recommended by the inspector that we hired today. And so what's funny is like, I see that all the time, you know, I'm walking properties around the Nashville area, and there's people that bought something, you know, two or three years ago, and they've really enjoyed what the markets done in the said, you know, what, like, I'm getting increased rents, I'm hitting my Year Five projections in Year 1.5, why would I bother putting my capital back into this place? And you know, what I can transact and sell again, that kind of goes against everything I've learned. So I would consider that a red flag for the operator, but I see it more than I should feel like.

WS: No doubt that's happening. It's an honor that has happened over the last couple of years. Like we can charge so much more in rent, and we didn't have to do anything, any capex, right? No doubt, there's tons of people that are cashing in on that. And so you do have to consider that right? You know, they've done no improvements. And that doesn't mean it's not worth more, you know, right. Now, of course, however, you're noticing things like the crack in the concrete or the foundation, all those things you were mentioning in some of those you may have already been known about, right. But what was it the delinquency that you all found out about that finally was like, 'Okay, we just can't do this deal because of that'? Obviously, that changed; you dealt those things, but was that the initial thing that changed everything to saying, 'You know, what, we can't do this deal.'

TB: It was. The physical surprises like we were able to talk through, you know, we got quotes and probably at about $150,000, in surprise capex based on the foundation issues, sub-floor joists, issues in every single building. And so we were able to talk through that we took that off the top line purchase price. We were trying to repurpose some of the money. So instead of we budgeted about 250, for new roofs, and the roofing inspector said, 'Hey, based on recent storms, you could exercise an insurance claim, and you'd probably pay higher insurance premium, but you wouldn't, you'd be able to repurpose that 250k for other projects around the apartment complex.' And so they were on board with that. And so, like the physical surprises were not an issue, it was definitely the delinquencies and kind of the impact that would have to our investors. And the elevated risk for a profile for that type of deal just wasn't really something we were comfortable with.

WS: Yeah, that's awesome. I appreciate you just elaborating on some of that, especially the red flags for the seller and things that the buyer right now should be looking for. As they're moving forward on deals right now.

I want to switch gears a little bit because you also have a unique approach to say direct-to-seller marketing, and I'd love to walk through that a little bit. I know that's something that people want to know. Right? Everybody's looking for that deal. They're pretty hard to find right now obviously, with interest rates doing what they're doing. And today's a big day for that. I've heard how or what's happened yet as far as today or maybe that decision hasn't been made yet. But anyway, tell us a little bit about your unique approach and let's dive in.

TB: On the interest rates. I was actually looking at up this morning and I'm just gonna like shake my head about what's going on but anyways, what goes up must come down one day hopefully. But for the direct-to-seller stuff, it's actually pretty unique. I think a lot of when a lot of people think direct to seller they think well I can't do that, or I don't know maybe I don't like talking to people are that's a burden and I need to pay for lists and I need to skip trace this out and the other and they get really lost in really the marketing side of things before they even start you know, analysis paralysis -- you hear that all the time. And so we kind of partnered with someone to do that, for us. We're partnering with a broker to help us through this process. So, they are the frontline, the face. What makes this unique aside from partnering with a broker is that we're finding properties that fit our buy box. So we're looking anywhere from Louisville to Huntsville, obviously that includes Nashville, and then East Tennessee, we're looking for 30 to 200-unit 1980s or later builds.

We're using Reonomy, just to understand inventory. And then we take the properties that fit our buy box and then we send the addresses to the broker, we're like, 'Can you give us CoStar reports, give us rent comps, sales comps, give us an underwriting report that's generated from there. And so, we look and identify what are the ones that has rents top-of-market ,automatically pass, disqualify those. We look for stuff that has a gap between market rents and current rents. And then we underwrite based on assumptions of maybe expense per door or expense ratio 45% 50%, whatever makes sense for the market. And then our first touch is an offer letter. If you compare that to historical direct-to-seller, what's like, 'Hey, Mr. Owner, I'd love to give you a free evaluation of your property, can you just give me [*inaudible*] offering real due diligence on it?' And they start asking for stuff, right? So it's like they ask, ask, ask and then give, whereas we're trying to give first to kind of make ourselves stand out. And so the broker handles the initial touches. The magic is in the follow up, honestly. And then they do the follow-ups every month or a quarter or what have you. That gets us a non-competitive environment and direct calls to some of the apartment owners.

WS: Awesome. I appreciate you walking through that process. I want to ask you a little bit about your partnership with the broker. Reonomy is a software that helps you find that information about properties, right? I've heard of that. And maybe we've even had the founder of that on the show years ago, I can't remember now, it sounds familiar. But ultimately, of the partnership with the broker, you're finding the deal through the software, all the details, you're underwriting it, you're asking for the CoStar report, you know, what's expected from the broker, then are they then taking your offer to the owner, you know, themselves kind of working their normal process, but you found the deal? What does that look like – that partnership?

TB: For sure, yeah, 'cause it could go a couple different ways. It could get to the point where broker goes to the apartment owner and says, 'Hey, you know, I have buyers ready to buy at this price'. It's just kind of sitting on a table for a quarter. So if we wanted to revisit it, we'd have to update our offer anyways, but it's just saying, 'Hey, I have buyers for this property, if you're interested in selling or transacting.' I imagine it'll go one of two ways at that point. Yes, my partners and I do want to sell; we'll talk about it, it's got to make whatever return for us and our investors. And that's going to be our price point.

And that's either going to fit in our buy box or it's not, If it's a property that is outstanding and super polished, and they want to sell for retail price to institutional investors, probably not us. It's probably gonna be a situation where we let go and say alright, 'Broker, do your thing.' I know, it'll come back to me because I believe in karma and the circle of adding value and what that looks like so I don't expect any sort of kickback and those types of scenarios but it's a volume game, right? If you look at the funnel of I need to generate so many leads to underwrite so many deals to get under contract and so many deals to close on something, I have to make my own leads. And that was our decision to do direct-to-seller since the turn of the year.

WS: Okay. Wow. Yeah, that's awesome. I appreciate the colors of the process and just speak to using that software. Is that been something? Is that like a deal changer? I mean, is that something that's like, man, this was just made for us using the software? What would you recommend around that?

TB: I would say that so Reonomy compared to CoStar, I mean, we're in the middle of 2021 kind of signing these processes, but you're looking at probably $400 to $600 a month for Reonomy split between two people, that's okay. To CoStar, which is like a mortgage. So, in terms of like, what's what's low hanging fruit for the masses to kind of get their hands on and just kind of accept that data quality is what it is. Maybe it's just the law of averages. It's directionally correct. It's been super important for us, there hasn't been anything else that we've been able to find that's low-hanging fruit for us to understand commercial inventory.

WS: Okay, now, that's helpful. I thought you said 2020. There, but ultimately, the middle of 2022.

TB: Yeah, sorry.

WS: That's all right. That's all right. I just want the listeners to know that. So that's helpful, though, that's helpful to think through, you know, is that a software that maybe we should consider trying to purchase right now, you know, as somebody that's looking for deals, as a listener is thinking about their budget, potentially, and what that looks like for them. Shifting gears just a little bit to a few final questions here with your experience in the market now. And even the software that you're using all these things that you're seeing, obviously, what do you predict are the next six to 12 months? And how is that changing your buying strategy? Or is it?

TB: Yeah, I've been waiting for this question all day. So I guess my predictions in the market, I've actually put a little bit of this on my LinkedIn feed. There's like some indicators, you know, indicating that if we do go into a recession, that the Fed is likely to decrease rates historically, right? If we ever go into a recession, maybe a couple months, quarters after, the Fed is going to lower interest rates to try to stimulate the economy. Yeah, I kind of have joked that the sooner we go into a recession, the better with regards to interest rates and everything like that. So I think that the Fed right now is looking at pausing after September, but I think that they're having to overshoot, knowing that they need to come down eventually to get the economy healthy again. And so, I think we're going to go into a recession. But I think that also historically, the longest recession has lasted 18 months. So, I think interest rates are probably gonna come down within an 18-month time span.

WS: I think that's an interesting metric there to know as well, as far as the 18 months. And if you could even just run some worst-case scenarios on the projects that you have right now, like, could we survive for 18 months? All right, you gotta be able to survive. Right? You know, when you know, there's a downturn, man, are you prepared? I always asked about reserve budgets and those things, how they think about being prepared for a downturn. Are you prepared? You know, can you survive 18 months? Some people say, you know, they're ready to survive, like six months. And that makes me a little nervous. That's good to think through as well. But maybe you can help us with that as well. Like, how are you all prepared for that downturn if you're thinking about, you know, those metrics?

TB: Our fundamentals haven't changed. I preach this all the time. It's like you need to be buying cash flowing assets with ample reserves and opportunity to add value. And so you know, I think it's getting harder to find cash flowing assets with some of the debt that's out there nowadays. the plan doesn't change, just keep looking.
What's your best source for meeting new investors right now?
Right now, I actually broke this into a pie chart, honestly. But so it's like a third is from my past lives. So my professional colleagues –

WS: I was gonna say you are recovering electrical engineer, engineer, data scientist. Yeah, that's–

TB: For sure. Yeah. And so I'd say about a third is just from, we'll call it the friends and family ecosphere. And then a third is from meetups in the form of conferences, and we are real estate investor and you know, not. I go to some business conferences and entrepreneur conferences, stuff that service the real estate industry but not real estate investors. And then the other third is just a huge amalgamation of people that have known or been referred to.

WS: What business or entrepreneurial conferences would you recommend, like outside of the real estate industry?

TB: I'd say for me, like, if I break it down to my customer avatar, right? It's probably you know, 30-to-65-yea0 old working professionals, real estate professionals, and then just generally speaking, maybe business owners who are looking to shelter some taxes. And so conferences that I go to are probably servicing the business owners and real estate professionals and you can marry the two so a conference I was at last weekend, for example, it had realtors, it had mortgage brokers, it had title, escrow attorney, stuff of that sort. And so that was a great source where if you're a real estate professional on your tax filings, you get to really benefit from investing in apartment syndication.

WS: So what are some of the most important metrics that you track that could be personally or professionally?

TB: Once a week, I always track the number of people that I talked to, and then also the number of offers that we make. Tracking the activity, so I'm tracking the leading goals, knowing that eventually it'll leg and get into substantial milestones. So, making sure I'm networking and being active in acquisitions.

WS: What about some habits that you have that have produced the highest return for you,

TB: I'm a big follower of Hal Elrod, and The Miracle Morning, and I would say that you have to have balance, right? You can't you can't build a Tower of Pisa, you know, and expect it to go forever, right? So you have to be balanced to have all of your pillars equal distance and growing simultaneously. And so I'm always meditating. I read and write every single day. I go through my thankful, what I'm thankful for, and then just my focus. So what do I need to do today for today to be a successful day? And then after that it's pigheaded discipline and determination. Intense curiosity I think would be.

WS: What was the number one thing that's attributed to your success?

TB: I'll give it away. That's like three things, but pig-headed discipline, determination and intense curiosity. If that's if that's one thing we'll say that's one thing. Yeah, that's

WS: Great. What about how do you like to give back?

TB: Right now, it's my time. So I just got back from a couple of coffees this morning from people that probably aren't gonna add value to my business, but I love talking about real estate. And so they're asking me questions about the short-term rental business, or how do I get started in multifamily. And that's my jam. But I love talking about that. So I'm happy to talk to anyone and everyone – passive or active investors. If there's any way I can add value, I'll do it.

WS: That's awesome. Tommy, pleasure to meet with you again. And to have you on the show. You definitely added a ton of value tonight and going through this felt quote, failed project right. I was thinking about the disappointment that probably was the time because you mentioned like this was gonna to be the one that was going to allow you to go full time. And man, I can just feel the letdown. Right? You know, when that happened. But man, I bet you're thankful now that it happened that way, right? Ultimately, if you had done the deal, it may have caused you to be even longer before you actually got to leave your j-o-b. Right? So appreciate you just being real about that sharing about that deal. Even the red flags about the seller, I think that's very valuable. And then your unique approach to direct to seller marketing and partnering with a broker doing that research yourself and going directly you know, with an offer to that seller that shows you mean business, no doubt about it, and that you've done some homework. Thank you for sharing that. How can the listeners get in touch with you and learn more about you?

TB: Yeah, thank you so much, Whitney. I appreciate the platform that you create here and all that you do. So if you want to learn a little bit more about me and what we do, we've built a platform on TBCapitalGroup.com. So Tommy Brant, you know, TBCapitalGroup.com. If you want to know a little bit more about multifamily investing, I wrote a book on there and so there's definitely a download that you can learn more about. It's a free resource. I do not monetize that at all on TBCapitalGroup.com. But if you want to get in touch with me, my calendar is on there, actually. So TBCapitalGroup.com/connect or pull up my Calendly and you can grab any 30 minute window that aligns with your schedule. Other than that, I'm on LinkedIn and Facebook. Tommy Brant, come find me.

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