EPISODE 1477

[INTRODUCTION]

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today we packed a number of shows together to give you some highlights. I know you're gonna enjoy this show. Thank you for being with us today!

[INTERVIEW 1]

WS: Our guest is Jim Pfeifer. Thanks for being on the show Jim.

Jim Pfeifer (JP): Thanks for having me Whitney, happy to be here.

WS: Jim is one of the founders of Left Field Investors, a group dedicated to educating and assisting like minded investors negotiate the nuances of the passive investing landscape and the world of syndications. Jim is a formal financial advisor who became frustrated with the 'one-path-fits-all' approach of the standard financial services industry.

Jim now concentrates on investing on real estate assets that produce cash flow and is committed to sharing his knowledge with others who are interested in learning a different way to grow wealth. Jim, thank you again for your time. You know, I've known you for a while, grateful to have you on the show. Get us started a little bit of your background — I know you had a financial advisory background. But then — was that real estate? Did you do any real estate then, what got you into real estate, give us a little more context there.

JP: Yeah, thank you. I started in real estate accidentally. But I'm kind of on career number four, I would say. I was in business for a while, I was a teacher for a while, I was a financial advisor for a while. And now I'm just an independent guy, investing in passive syndications. When I started, I called it an 'accidental landlord,' you know, we sold — or we bought a new house in 2008 and we couldn't sell our old one. So we rented it. And we did that for about five years and I was a property manager and I did not like it.

I went to sell that house because I didn't like having to go over Christmas eve to fix a toilet, which did happen. And my realtor said, "Hey, why don't you let me manage it for you?" And so I said okay, and he did. And then he convinced me to buy two more properties. And I did and I still own those properties and they're making money. That kind of got me into real estate. And so I was the guy with shiny object syndrome.

I went and bought turnkey investments. I bought a 22-unit multifamily building; we did a flip — and I joke because that flip made us hundreds of dollars. If you know about flipping, you should make much more than that. I was all over the place until I kind of found syndications when I was at a seminar. Because I thought I wanted to be a syndicator. I went to the seminar and I learned, no, I want to be the passive, I want to invest in other people's syndications. So I did. And I started out kind of investing my self-directed 401(k) in a bunch of different syndications that gave me a lot of lessons about what I don't want to do.

And over the past two years, I've learned and I focused and now I know the kind of syndications I want to be in. And so now I'm kind of much more focused in on the right path, I think.

WS: Nice. It's just interesting to hear how people get to the syndication business for sure, you know, if you say syndication to somebody new about investing, I mean, it's like, there's no clue what that is and puts up this big wall a lot of times but you know, you dove in there, you learned about syndication, learned you wanted to be a passive.

Jim, let's dive in a little bit. How do you help — let's first say, how did you navigate the waters of those learning syndication? You said you invested with your IRA first, you learned a lot of what not to do. What were some of those things? Now you know, you've been more successful investing?

JP: Originally, I don't want to get too technical, but I had a self-directed IRA which doesn't really make sense to invest in leveraged investments in an IRA. Because you'll pay the UBIT tax, which is a tax inside your IRA. When I first got it, I had a bunch of money in a roll over and I was super excited to get started so basically, everybody I meet at the syndication seminar I'm like, I'll invest in your deal, I'll invest in your deal.

I wasn't really looking at the deals, I was just trying to get started. While that's not the best strategy, I also think it's a good strategy sometimes to just take a chance, try something out and see if it works. That's what I did. The investments aren't horrible investments, they're just investments that aren't paying out like they should, or on time that they should. And unfortunate, because that's in my retirement account. That they're playing out slower than I thought and it doesn't really matter.

But now, I'm focused on real assets that produce net income for me and that's what I'm living off of, so my strategy there has changed for sure.

WS: Okay, well you know, tell me though, are you still focused on using your IRA or are you more not too focused on using your IRA, anything specifically that you could recommend about that process before we move on?

JP: Yeah, so I converted my IRA to what I guess an EQRP or self-directed 401(k). And that, for some reason, the tax code, you're allowed to have leveraged investments in that but you still lose out on depreciation and other tax advantages of syndication. Right now, in my self-directed qualified account, I'm only doing private lending or any kind of debt structures that don't have these tax advantages that you do have in the other non-qualified accounts.

WS: Let's hold off right there just for a minute. EQRP, it's something that's kind of — maybe it's not new, I don't know. But it's new, kind of being known in the industry. I feel like, to a lot of people, or that you hear that term and it's like, "What in the world is that?" What would you advise now to the investor listening that's saying, "Wait a minute Jim, I've thought about using a EQRP but I just don't know if that's what I need to do or not."

JP: Yeah, I would say that if you have a roll over or 401(k) that you can put under your own control, I don't think it matters if you do a self-directed IRA or an EQRP, if you're just going to invest in — or you're just going to do private lending or debt instruments. Things like that. Because that's what I think belongs in your retirement accounts rather than the syndications that give you all these tax benefits.

I would say, it doesn't really matter which one you do but you get the money in your control, you can still invest it however you want in the market or in real estate or whatever. If you really want to get into syndications, and the only thing you have is your 401(k), then I would definitely recommend the EQRP or solo 401(k). Because those get you around the UBIT — and I would say it's better to have some real estate than none.

I would still be okay knowing that I'm going to miss out on appreciations on some of the other tax benefits but at least I don't have the UBIT in the solo 401(k).

WS: You would say, definitely transition to an EQRP if we have a 401(k) or something like that. We have that checkbook control but maybe use it for something other than syndications, like hard money or something like that.

JP: Yeah, there's actually syndications you can do that are just lending, that are just dead. So I would find some of those or, I run a couple of local real estate meetups. And there's plenty of flippers and buy-and-hold people who I learned, once I get to where I know, like, and trust you, then I can loan money to you. I do that for individual loans to people as well. And I do all of that through my retirement accounts because there's no tax benefit to doing it elsewhere.

WS: Give us a couple of details on how you document something like that. You're just handling that capital properly.

JP: Well, you know, the first time I did it, I just took the other guy's wording and just signed the document. It was somebody I trusted so I don't have any regrets. But I just didn't want to spend lawyer fees. But now, on the new deal I did, also with somebody that I trust very much. I decided I need to either — I need to get real documents that are vetted by my attorney.

Either I pay for them, or in this case, I ask the lender, or the guy I was lending the money to, I said, "Part of this deal is you're going to have to pay for my attorney to do the documents." And he was fine with that. But even if he said no, I would have spent the few hundred dollars it takes to have someone go through and check the documents. I didn't do that for the first few deals but it's money well spent.

I haven't had any problems but I will always spend a couple of hundred dollars that I've avoided all this time to get the right documents.

WS: Changing gears just a little bit Jim, you know, since you're helping many other investors now, you know, just open their eyes to the syndication business. How would you say or what's the hardest part of teaching them, what the syndication business is? How do you expose them to that and share great things about this model?

JP: That's a great question, you know? I have a couple of different groups, one is the beginner group and they're people who are friends or even a couple of former advising clients who have always told me, "Hey, you know, I hear you're on real estate, I'd love to get into real estate. They just might not have the capital to do deals on their own.

With that group, we're just starting from scratch, educating all the way through. And we actually, in that group, through a company called Tribevest where we invest our money together. We just invested in our first deal, our first syndication. There's 11 people in the group, none of them had ever done one before.

We walked through it step-by-step, we talked to some different syndicators through — Zoom has been a blessing, in that sense. We just went step by step and educated people on crowdfunding, syndications, the tax structure, and everything. And went into the process. There's another group of people that are interested and know about syndications but you know, might be able to invest on their own because they have a little bit more capital. That group is a little more advanced group so we kind of just talked to each other and I thought I would have all this knowledge to give and share with people. But I find that even when I'm talking to someone brand new, I learned something every single time.

The act of sharing my — what I call my syndication knowledge or experience or whatever you want to call, it's just been given back to me tenfold by talking to people that have a different perspective. Or don't really know about syndications. And I learned something every time so I'm really surprised that that happened and grateful for it.

WS: You know, Jim, before we started recording, you had mentioned. Like helping others and yourself just understand, like, real assets producing actual income versus paper speculation. I just wondered if you would highlight on that a little bit and let's dive in there for a minute.

JP: Yeah, certainly, I mean, I was a financial advisor, we were all in the stock market or other products. And it was always these paper products that, you know, at some point you're going to have to find somebody else to sell them to so you can make money.

Now, there are some that, you know, you can collect dividends off some stocks, so there is that. But I'm a strong believer now in acquiring assets that provide you cash flow. Because then you'll never have to worry about, you know, you can quit your W2 when you get enough. You can have retirement, all of this stuff because these assets produce this cashflow while also, if you're patient and on the back end, they also produce appreciation.

But I never factored that in to when I'm investing. I always thinking, "Okay, I'm just looking for the cash flow," because this is what I'm — this is how I'm paying for my lifestyle and my family and all that stuff. I want assets that produce regular cash flow. That's my main focus. Now, there may be a time when there are some — I'm focused on appreciation a little bit but my main focus is, I want an asset that's going to produce cash. That's everything I'm doing right now is focused on that.

[INTERVIEW 2]

WS: Our guest is Sam Silverman.

Sam has become really professional passive investor. He has dove head first into this business and became a passive investor. Because of the income level that he had, he had to figure out what the best way to invest that was, and we're going to get into that today. But although about him, he's a tech sales leader that has led global organizations, his leverage his day job to passive investing and operating multifamily apartments.

But today, we're going to get into how he graduates college, and then has this income that he hasn't had before and has to figure out what to do with it, right? And he goes down that path, and most of us have gone down or have thought about going down which is, you know, starting with single family homes and learn the hard way how much brain damage, or this time, has to be spent to make that model work. But he took some big changes, learned a lot about passive investing and now has become active in the space as well. So I hope you enjoy the conversation.

Welcome to the show Sam, a pleasure to have you on as a guest. And tell us a little bit about your background. I want to hear because I know you are a very active passive investor but now, some things are changing and you're in you're changing even, you know, from the passive role to more of an active role and I want to get into that, but tell us a little bit about even your W two position and why invest in syndications.

Sam Silverman (SS): Yeah, but Whitney thanks for having me on here. Big listener of your podcast, definitely appreciate coming on here.

When looking at the W2 jobs, so right at a college, got into sales. And when you look at sales, especially in tech it's a pretty low barrier to entry job, right, meaning that you can quickly scale and grow in the role, both in terms of position, responsibility, and more importantly earnings. So when you look at that you have the, you know, excess cash they never had before, that you're looking to, you know, "What am I going to do with this?" Right, so that was kind of my entry to real estate, and started in real estate like a lot of people do: bought in a single family houses right at a college the first few years, and realized this was not the past that I wanted to go down.

I think something people missed a lot when looking at single families just the amount of mindshare and headspace that it takes up.

WS: I call it brain damage.

SS: Yeah, that's like putting it.

WS: Yeah, I did the same thing. And that's the way I was advised by so many people who had been in the business a very long time as well, it's like you have to start small and eventually you'll get there, you'll grow, and you'll move from that single family to maybe a duplex, a fourplex and eightplex and, you know, and after a few years…but keep going, you bought a single family homes right out of college, but you figured out "Wait a minute, there's a lot of work, involved a lot of time."

SS: Yeah. I was lucky in a sense when I bought them that I actually bought in the submarket of Jacksonville, Florida – great market, I love the area especially now multifamily as well, but that area for context, I bought the first house on more or less farmland, like they had the clear tree is to even put the single house there. And now there's no 30 or 40 houses in a few blocks to the area, and I probably caught it in the second inning. So it's…it's moving on up or third or fourth inning now, so they have to do a few reef eyes on those properties, pull out of my cash, back out on them, sold a few.

So, really good learning experience. I think it's actually similar to, you know, what I did at first and sales right as an SDR function where it's look at that role, that role is booking appointments, pass them off more senior sales rep, and then kind of earning your stripes that way. So I view it as a really similar experience where it gives you the insight as "Hey, what do you want to do? And what do you definitely not want to do?" Which I think is a super important part, like understanding what you don't want to do first, really helped point in the direction of what you actually want to do.

WS: You need to get clear on those things, right? What you do not want to do. Tell us a little bit about what were those things for you and how is that helpful.

SS: The biggest thing was when looking at the capital and the properties, right? Just kind of breaking that one property for example, they make anywhere from two to $400 a month, right? And getting yourself some reserves, they weren't bad properties like it was solid cash flow. The biggest thing was that each purchase was a new transaction. Right, so I'm looking at it, it wasn't getting to scale the point where "Hey, I can never replace my entire W2 income. This is a lot of freaking houses." You start running the math on them and not as a lot, a lot of houses, a lot of transaction really spread out copy management as well.

If you can get them somewhere close together, right, you're still paying a premium to have those units manage, and so all different transactions, a lot of tenants. I think one of the biggest things as well as that, you have a single family house. Once vacant, you're netting zero on that property, which is kind of a good pivot to the multifamily side, where your breakeven standpoint were looking at occupancy is so much lower than single family, right 100 versus maybe you know 60, 70% so huge swing when looking at that

WS: For sure. No doubt about it. And so, you had this income, all the sudden you get out of college, you're making some money, you said, "You know what? I'm going to figure out what to do with this," you found real estate, you start buying single family homes, you figure out there's a lot of brain damage, a lot of times spent – a lot of mental time, you know, I think you said. I mean it's so true. So true. You know, people don't realize, but you know you buy these homes and I love it you say, you know, you need to know what you don't want until you figure out what you do want.

And so moving on from there, like did you buy more single family homes? What happened next? You know, what made you then look for something other than, you know, this business plan that you have?

SS: I took on a time to step back and start with okay, what I want to get to be the first day was just go right to something right better than doing nothing at least taking some action. Then once you kind of have the momentum. You can take a step back and think, okay, start with the end in mind of where you want to get to versus what you're doing on daily basis just to push the ball forward a little bit. So from there, I looked at okay, what is something that I can get involved in that allows me to spend almost all my focus on my day job right being in sales, and having a good career trajectory, your earnings are variable right where, if you perform better, you make more money.

If you perform better, you know, typical you're in a sales or if you're in a good one, that's purely a meritocracy, right? It's not tenure-based, it's not political, but it is solely based on performance as a very metric driven role, right where in certain fields, say for example if you're a doctor, right, you may be a great doctor but maybe hard to quantify how good of a doctor you are. You look at sales, it is black and white, right? Age, you know, tenure, politics really don't matter, right? It's more so, if you perform, you'll earn well and have a great path. If you don't, you'll likely be out of a job. So, I think it was a really, really compelling area to get started in, to kind of looking at the switch that I made from single family, stop buying single family, sold some off, still have a few that are actually performing pretty well. Long term tenants there so maybe once they, once units turn a look at selling those. But for now, they're fine.

So did a lot of research, right, from podcasts like yours, from, you know, Michael Vock – he's awesome, his podcast great educational content as well. And then what I started doing is learning a lot more about multifamily syndication, where all these people go on to the podcast to talk about a topic, but for being transparent here, to promote their business in some way. And you look at it, kind of, my roles have been building sales orders.

And one of the biggest characteristics of building in sales is hiring the right people. So my background is really well versed and interviewing. So what I would do is, I listened to the podcast that are podcasts and podcast, find people that I thought seem genuine, transparent, competent. I get on a call them, and I'd interview them, right? As the teacher people you're getting a check of, you know, $50,000 plus that you want to feel confident in who they are as a person. Character's a really big thing. All the fields, you'll see the differences in terms of return, are negligible. Right, they really aren't a huge swing when looking at now 15% versus 17 versus 18 or 16, right? It's all pretty standard. But the biggest thing that you want to see is that, who is this person who gave my capital to? Like we all know have artists to go make that money and actually save it. That's your point where you can go investment deal like this. And then more so, what's your confidence? They can go excellent is on a business plan, and it's a realistic expectation and provide themselves the proper buffers on either area.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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