EPISODE 111

[INTRODUCTION]

Jason Yarusi (00:00:00) - It's an interesting time. It's constant ups and downs. That's just what the market is. And so if you're looking at the news all the time and maybe you're more prone to it or you're more active in the stock market, you see what's happening out there. It creates a lot of fear.

Tejas Gosai (00:00:14) - Ladies and gentlemen, welcome to Real Estate Investor MBA. My name is Tejas Gosai, and I've had the honor of helping hundreds of investors achieve the American dream by creating generational wealth through real estate. I've spent the past few years interviewing the most knowledgeable experts I could find in the business to cut your learning time and conquer the hardest subjects in the game. Check out rei.mba which my team and I have packed with over 75 interviews and free access to our real estate roadmap, webinars and publications. If you're listening, I am rooting for you and you're already on your way to financial freedom. Cheers and happy hunting!

[INTERVIEW]

Tejas Gosai (00:01:08) - We have Jason with us today. This is take two. Jason, I apologize for the last production that didn't make it.

Jason Yarusi (00:01:10) - Hey, I'm psyched to be here, so things happen. I'm really excited to get back at it. And why not do it twice?

Tejas Gosai (00:01:15) - Yeah. That's right. Well, we get to talk about some new stuff because the rates just went up to 8% and things have been kind of nutty. But first, first time on the show. Would love to hear about your background, how you got here. You've been tremendous in managing money and working with investors and making sure it gets into the right real estate, mitigated risk, all that fun stuff bring us to date.

Jason Yarusi (00:01:37) - Yeah, sure. So, you know, I was born and raised in New Jersey. I went and lived into New York City. When I moved into New York City, I came out at school with a finance degree. But when a pretty non-traditional path over into the hospitality industry. So I started managing bars and restaurants, ended up owning a restaurant, opening and selling a brewery and then another bar before hurricane Sandy happened, which was a huge hurricane, happened on the East Coast, decimated a ton of homes.

Jason Yarusi (00:02:02) - And my dad, this was right in early 2011-2012 has a business. They just retired from that lift and moved houses. So his business would do about 10 to 12 projects a year based on how specialized it was. Well, one of the things he does is lift homes out of the floodplain. And so he would lift these homes and get them up. And you would only do this a couple of times. When hurricane Sandy happened, his business went from these 10 to 12 jobs a year to a thousand calls a day. So at that time, my wife now, Pili, was my girlfriend, and my brother was working for me in the city. Well, we ended up moving out of the city, moving to New Jersey just to help dad take on just this onslaught of business that really helped these homeowners get back in their homes. So we went from those ten, 12 projects a year to about 250, sometimes 300 projects a year. Over the (inaudible).

Tejas Gosai (00:02:48) - I have to pause you. I don't understand. You move a house?

Jason Yarusi (00:02:52) - Correct. Correct.

Tejas Gosai (00:02:52) - It's foundation with everything.

Jason Yarusi (00:02:54) - No, the foundation stays. And so what will happen here is that we'll take usually the house off of the foundation. So most houses are wood frames. So we'll separate it from the foundation by putting steel underneath. And the steel acts as a temporary foundation. And in there just imagine Jenga blocks. There's usually sets of Jenga blocks that are within there, inside those Jenga block stacks that are basically holding the weight at different portions are jacks. And those jacks typically can hold lift anywhere between 15 or 30 ton each jack. It will tie back to a manifest, and then my father or brother will run the manifest to be a jacking machine to lift the house up in an even fashion. So we would do this, you know, we did this in four different states. You know, Connecticut, we actually five in Massachusetts, Pennsylvania, New Jersey, New York. Right. So we would run to a lot of states doing this. Majority of it was in New Jersey. Did you know a couple thousand projects and got a lot of people back in our homes, and we did that.

Jason Yarusi (00:03:49) - But between the hospitality and construction, I was constantly doing really service tasks, right, which is great. However, it was such a specialized business in the construction world that if I didn't show up, my family didn't show up. You know, we couldn't like sub this workout, right? So there was no way to replace us as a bartender if I wasn't working, I didn't get tips. Right. So fill in the blank. Right. Well, we kept asking, what else is there? Because Pili was pregnant with our first kid. You know, we were, you know, at this point, like, how do we start controlling back our time? And so real estate came up as a topic. We jumped in, Pili was pregnant when I got a real estate license. And we started flipping and wholesaling homes, just doing a lot of really high-intensity flips. But again, my action is taking time, right? I'm actually between the construction and the real estate. I'm actually losing and losing out on time.

Jason Yarusi (00:04:34) - So we found out-of-state rentals through through a connection. We started buying small rentals out of state about a thousand miles away. And that's when my eyes open to the opportunity to do this on a larger scale, because the economies of scale, I just couldn't see it owning, you know, a ton of duplexes all around the country. It just seemed like a logistical nightmare. So I found large multifamily investing. That was back in 2000.

Tejas Gosai (00:04:55) - Wait, wait. Yeah. What year was this?

Jason Yarusi (00:04:56) - 2016 was when I found out about that. And we purchased, learned everything we could, surrounded ourselves with great people, you know, got mentors, did a lot of things to put ourselves in a good position, to know the process we got to. And then we purchased a 94-unit in May of 2017. Wow. That was the first acquisition, a large apartment side. We've done somewhere about 26-27, give or take of them since then with about 14. Today I'm actually selling a project today, 14 full circle projects. And then we've done, you know, 27 off the count on that part.

Jason Yarusi (00:05:29) - Acquisition on the front side there. Jordy here is around Nashville Atlanta. But we're we have projects that we've done in seven states now.

Tejas Gosai (00:05:38) - It's awesome I've got to peel that back for a second because you went from like 0 to 20 to 30 to 300 miles an hour. And I love it that you use the word scale. I also love it that you work with your wife. My wife is, you know, confidant. I don't think there's a successful married man that doesn't run most of their plays past their wife. Yeah.

Jason Yarusi (00:06:00) - You know, no, it is is they keep you in the right lane for the right time. Right. So, you know, sometimes it just get it together. We are completely different. Two different animals I run it, you know, my wife's Hawaiian. She goes at her Hawaiian pace and that's perfect. And I'm moving ten times probably at times too fast. But she levels me to make sure that we're going at the right speed so we can accomplish the right task.

Jason Yarusi (00:06:19) - Right. And couldn't be more important.

Tejas Gosai (00:06:21) - It's awesome. And I mean, that's a lot of logistics systems, legal, property management, like every avenue, you know, I run a fund, I, I can say that we're a smaller fund, hyper-localized in eastern Pennsylvania. And I'm a big control freak. But I know you are too. So how did you go from where you were to like, much larger projects? How did you legally do them? Stay clean. How did you find investors?

Jason Yarusi (00:06:49) - Yeah. So there's roles that you have to have. Right. So you have your internal partners and your external partners. And the first couple of projects, you know, we were doing Pili and I all the internal roles. So you have lead generation, you have due diligence, you have underwriting. You have asset management, construction management, capital raising. Right. You have guarantor. Right? So those are the roles you usually have on the internal side. However, as you grow, you need to have the trust but verify solution of having people on your team that can help fulfill those roles, whether it's internally here at your holdings or with other partners we bring on.

Jason Yarusi (00:07:21) - But on the other side, there's the external roles, right? You're typically going to have your transaction, right? So you're going to title company. You're going to have your lawyer where some states might be a transaction lawyer. And so we'll typically if we're closing in a state, we're going to use the transaction lawyer in that state, title can be in many different states. And then we'll use a syndication lawyer. Make sure for the security approach we're putting out the right paperwork for the investment. Typically we have two different ones. You know one's in California and one's in Texas, right? Just depending on the need for that. So we're making sure we have those. Then you have your insurance partners. Of course you're going to have your brokers. You'll have typically a cost segregation group as well. It could be another ancillary partner. Then you may have a GC or your other contractor and you have your property managers. Now property managers serve we manage some in-house here. Typically it's the middle-tier ones that we do not find great property management resources to, but the larger ones will typically use third-party management companies that are in the geographic area.

Jason Yarusi (00:08:15) - So here we're in just south of Nashville and Murfreesboro. I have a management company here that has, you know, close to 4000 units, all targeted in this area. Great resource, great company. They're going to do it better than me. So I would be getting in the way if I was trying to take that off. And if I was trying to do that role, then I would be taking away a role that they're great at. But I'd also be limiting what I could accomplish on the other side.

Tejas Gosai (00:08:37) - Right. Awesome. And I'm happy this podcast is transcribed. That was a lot of good meat for somebody who doesn't know real estate, to just hear those words and be able to go look them up. But let me take a step back. So your first big 95 unit, that was the major jump. So in that one, is that the first time you went the legal route, had to put all those pieces together and create the vehicle to pull it off?

Jason Yarusi (00:09:03) - From a syndication of offering? We did a 506 B, it was family and friends.

Jason Yarusi (00:09:07) - So the first time on that side, us doing that process, that is correct.

Tejas Gosai (00:09:11) - What if I never heard of that 506 term? Can you explain that and why it's good?

Jason Yarusi (00:09:17) - So there's a Reg D offering right? So you know this is we're offering a security but it's an exemption from having to go out there and do the full offering as if you're going from like a public company or going out there into the stock exchange. Right. So this offering allows you to not have the ultimate big backside of which you're presenting. However, you are offering security, so you'll have a syndication, a lawyer will come through. There's a number of them, but the ones you'll hear the most is a 5 or 6-B and a 5 or 6-C. They both are raises where you're raising separate amounts. However, the investors that you can have as part of the process are different between both the 506 C, you can have as many accredited investors as you want, and you can have 35 non-accredited or sophisticated investors, right? However, you have to know them.

Jason Yarusi (00:10:00) - They have to be someone that you've had a pre-existing relationship with. Right? So family and friends to be in that part. However, the accredited fashion is that they have to meet either a net worth of $1 million without their home. A couple of the others is they make $200,000 a year, or $300,000 a year, married for the last two years. There's a few others in there, but on the other side of it you have the 5 or 6-C. This has to just be accredited investors. But, you know, if I was to do a

506-C raise, I could be doing it on this call right now and presenting an opportunity because you can go out there to the universe.

Tejas Gosai (00:10:34) **-** It's awesome. Thank you, thank you. So funded that project, kept moving. And can you tell me some of the numbers for the next ones that you did beyond that 95-unit?

Jason Yarusi (00:10:44) - Sure. So that was the first one and you're giving us more credit. It was 94. So we didn't get the we didn't get the next one yet.

Jason Yarusi (00:10:49) **-** So we had to jump out there. So it was a 94-unit great project. And you know we did that project and we didn't do another one for almost a year. Right? A lot of this was that I was still busy with construction, but I want to make sure that I had the game plan. If plan's not right you know, it's like you can't just put the plan and keep doing the plan if the plan is not right. So really dialed in to make sure that we were doing the right steps, doing the process, knew what we were doing, making sure when we implemented something it would really pay off. And what happened is that we did great. You know, we think in the first year we did like 65 of the 94 units returned. We refi-ed at year, month 13, we're able to return about 75% of capital, I think, at that time. And we sold it at month 24 for like over 2x return for investors. So it was it was a massive, it was a great one.

Jason Yarusi (00:11:33) - So a great project, you know, and we really were in a good place to make that one happen. But a lot of things with the property gave us a lot of confidence to be able to go there and rinse and repeat so, well.

Tejas Gosai (00:11:44) - Then all those investors are like, hey, I love you for what you just did. Where's the next one?

Jason Yarusi (00:11:47) - 100%, yeah. So we did another 48-unit 58-unit comes to mind. We had an 80-unit after that and then a 65 and a 32. The small ones were in and around Louisville because we're we're really starting there. That was the first market we went to. And we had a property management where we could run all together. We were almost running them as a combination of properties here to give us the economies of scale, because at a certain number in markets, it's hard to make sense. Like if you have a four-unit, you can't have like a full-time maintenance guy, right? You just can't afford it.

Jason Yarusi (00:12:22) - But there's a certain number of where it starts making sense. However, 48 units is a little too low, right? You need it, but you can't really afford it. Like the same thing with like a leasing person. Like you need it, but it's hard to afford it. But if you get a 48-unit and actually got the 58-unit right across the parking lot, we now have 106 units I can mine. And I was able to take the was a massively large like maintenance shop but also a laundry room. I was able to basically renovate that whole thing, make it into a very well-sized laundry room, keep the maintenance shop size and make a whole leasing office out of it. So it worked because then we were able to combine that whole property and run a number of properties out of that office.

Tejas Gosai (00:12:58) - It's brilliant, I love it. Let's get up to date now. So it's a weird time. I love having this podcast to just talk about like how people are getting through it.

Tejas Gosai (00:13:08) - So you've mastered a lot of things now we're in this environment and interest rates, and we both have investors that might be asking some questions or like, hey, what's next? You're looking like. Fill me in with this part of it. How are you today? And what are your, what's successful? What's your next place?

Jason Yarusi (00:13:27) - Yeah. So we've been constantly over the last probably 16 months now buying, any project we've been buying we've been looking to buy with bank financing to the best of our ability. So five-year fixed bank financing with a fixed rate, right? May get a year of maybe, maybe 18 months, typically amortized over 25. Sometimes you'll get a credit union who will go out to 30. But the back end is very limited on the prepayment penalty. So it may be 1%. You know, at most the credit unions don't have one. So we can get into these projects as long as you can pencil out. And if times stay relatively high over the next 2 or 3 years where we're locked in at a fixed rate, right? So it's not going to impact it.

Jason Yarusi (00:14:06) - However, if rates go the opposite way, we're not stuck in maybe an agency loan where if rates go the opposite way, it's going to be tremendously expensive for us to be able to change out a loan based on the prepayment.

Tejas Gosai (00:14:16) - That's some beautiful financing. I don't know if anyone else has access to that. That's pretty…

Jason Yarusi (00:14:21) - Well in terms of that, a five-year fixed and over 25.

Tejas Gosai (00:14:24) - I mean, 25-year-M (mortgage), 30-year-M I think is kind of not

Jason Yarusi (00:14:28) - 30 will be exceptional in credit line. I had one I think we did a December that we did was but it was a relatively new construction. So they were making from the credit union. The banks are typically going to be five. We do have a one commercial. It's a five and 20-year-M, but you can typically find your way into five and 25.

Tejas Gosai (00:14:42) - They usually crush you with prepayment penalties though.

Jason Yarusi (00:14:46) - The banks usually would be good. We acquired one recently where we were able to acquire the loan on a Freddie, but at the same time we're selling a land deal that was a five-year, and sometimes it might be a 3, 2, 1, but typically you'll get a 2,1 or a one.

Jason Yarusi (00:14:58) - Say it's a $10 million loan, right? So 1% off that, you know, 2 or 3% of that $300,000, where if you were to back in that $10 million deal and have an agency loan, depending on where rates go, I mean, it could be three times that, right? So you look at your exposure lease, you know, going in what you are in the back end. Right. So you have predictability now could it go against you. Absolutely. But certainty is better at this time than to have the open exposure of not knowing where you can go. And it also gives me the ability to look into the future and say, okay, what can we do, right? What can we do in the future? Well, it's going to cost me $200,000 in year three to either refinance or sell, right? Okay, so I know. So that's got to be my metrics. I have to take into account today that as we go forward, I can continue to forecast how the project is doing.

Tejas Gosai (00:15:42) - I love it, love that. So you're doing that now. You're still penciling some deals. You're moving forward.

Jason Yarusi (00:15:49) - It's tough. Loan assumptions are actually making a lot more sense right now. Right. So we actually were able to buy this 32-unit here right in town. And we acquired that project with the loan balance was like 3.2 million. And the purchase price was right about $4M ones So we get so are 4 no, four 2’s. So we got a really attractive deal based on some of our other projects here in town. And the rates 3.2 right now. So that made sense. But if you look what was happening like, I don't know, 15 months ago, 16 months ago, because of the elevated pricing, people and people had locked themselves in the loans where the loans were six and 7%. You're like, hey, I need you to assume this loan. But at the same time, you get a five and a 4% loan. You're like, it just doesn't make sense.

Jason Yarusi (00:16:28) - But you look at that today, you're like, oh, get into a, you know, 6% loan today. And it might make sense.

Tejas Gosai (00:16:33) - Yeah I love it that you're saying that that's a bit motivating because there's just so much crap out there and a lot of people are scared. And then even the folks that I respect a lot in real estate are kind of listening to too much of the noise and not looking at the historical data. Share that. Like I know your five-year, ten-year goals, but how do we deal with interest geopolitical issues like the Fed? How are you monitoring all this? What's just your crystal ball?

Jason Yarusi (00:17:04) - Yeah. It's try not to be too widespread because you know the details right. The devil's in the details. Right. And so if you can stay really particular to our market, the market's going to react in a different fashion in the entire country. Right. So like if it says like we're in a recession, like the entire country doesn't just jump into a recession, right? Certain markets are going to either going to be much more dramatically affected or you're going to have other markets that may just have a little blip.

Jason Yarusi (00:17:26) - Right? Not only is that going to be a blip, but it might not happen for another 12, 18, or 24 months. Right? So just understanding how your market's reacting to the drivers are going to keep your market really strong. Right. Are people continuing to come here? Are employers continuing to come here? Are there a lot of diversity and employment options? How is the market reacting based on what you see is just the energy, the path of progress, right? So if you can pick anywhere you are, you're an eastern PA, right? So if you're looking at some of those markets there like the East ends or the Bethlehem's what's happening there, right? Or if I look at where I'm here in Nashville, I may want to look really strong. What's happening in Nashville, because it's not only in the market, but it's also in the submarket. Nashville has like 25,000 units coming on the line in the next couple of years. It's a ton, but they're more segregated to certain submarkets of Nashville.

Jason Yarusi (00:18:11) - It's not overreaching to some of the other areas that are out, like where I sit, you know, 25, 35, depending where you are from, Nashville in Murfreesboro, you know, there's still a ton of energy here, at least really strong and still getting good lease rates and the city's continuing to grow, so it gives a lot of energy. Why this market is even if we have a dip, it's going to be moderate where it's not going to kill like you might be in some of these other tertiary markets. So, you know, we don't really do pretty outlier markets. But that's one thing I'd really stand off to right now. If it's some random market you found, you have to ask, like, why are people to continue to come here? And who's going to want to buy this from me in the future?

Tejas Gosai (00:18:47) - That's the big quandary. Who's going to buy in the future? What's the number going to be? What's the environment going to be? So you're sticking in your markets.

Tejas Gosai (00:18:54) - Can you mention those again?

Jason Yarusi (00:18:56) - Really if everything goes, it's always going to be Nashville. I like Nashville a lot. And Nashville also is a very spread market. But we go down into Wilson and Williamson and Rutherford counties that’s surrounded. So if I look at Nashville, basically to the east, to the south and to the southeast, that's kind of where our part is. So it's a, you know, say 35, 40-mile radius is a really good fashion. I think there's a ton of energy continuing to go here. So we really like first and foremost, I try not to go anywhere else. We have brought a couple other opportunities in other markets going fine, but right now with everything, I really want to stay here in our backyard.

Tejas Gosai (00:19:30) - How about your investors? I'm sure they're from all over the place. What's the temperature? I've gotten some calls that are just like, hey, you know, I'm super worried. Is my investment going to be okay? And I mean, it turns into, like, I have my quarterly report and I'm sure you do and all that information, but I'm kind of like sounding it off and telling them what I'm watching.

Tejas Gosai (00:19:51) - And it's just a lot of what do I want to call it, like TLC, bedside manner. How about you? How are you dealing with some of these?

Jason Yarusi (00:19:59) - Yeah. And it's well, you know, well deserved. Right. So they're investing their money with us. And so they want to understand what's going on. We do monthly updates across the project and we're always welcome for emails or calls back. Right. So they come in and the calls are going to change many times based on just, you know, what they see in the news or what you know, what is, or they just need more understanding of some of the happenings for the project. Completely welcome out there. It's an interesting time. It's constant ups and downs. That's just what the market is. And so if you're looking at the news all the time and maybe you're more prone to it or you're more active in the stock market, you see what's happening out there. It creates a lot of fear. So they're always welcome for those calls just to get a better understanding if they have that.

Jason Yarusi (00:20:34) - And when we take them, you know, we give them just the clarity of what they need to be able to understand completely where they're at.

Tejas Gosai (00:20:39) - Yeah. Yeah. You're saying that the right way. You know, we're fiduciaries. We got to give a bunch of info. I have been just, you know, maybe this will help or not, but I amped up my newsletters to three times a week, and two of them are just podcasts. But, like, here's what's good in the market. And it's funny, like, we're getting so many hits on just a simple, here's what's good in the market, here's what's good in the market. But yeah, that constant like reiteration of here's how we're hedging the bets, here's what's going on. Asset classes. Like we have just totally stuck in multifamily. I talked to other fund managers, some other folks like self-storage and things like that. It's interesting. But you’re multifamily right?

Jason Yarusi (00:21:17) - So we have 90 plus percent is multifamily. I have a couple like one of the land projects, one we're selling today and have two other land projects, one office space in South Carolina and then also multifamily.

Jason Yarusi (00:21:28) - That's right here. So brand new, built a year ago.

Tejas Gosai (00:21:32) - So that's one big thing with investors. I'm like, this is the safest asset class. Like we're really trying to do it right. How about the environment of like the Fed. What do you think interest rates are going to stick at for a bit. You know you think we're going to go higher. When do you think it might stabilize or drop?

Jason Yarusi (00:21:49) - You know I don't have the crystal ball. Who knows. You just keep acting like it is. But like what I'm trying to do is give myself as much options on the back end. Wish I had clarity, but no one does, right? Ideally we we have we're somewhere closer to the top, right? And even what we're doing right there. So we're somewhere there. It just the level of like okay, we're going to moderately be at this point, but for how long? Right. And traditionally when it goes the other way it goes down quick and rapidly. So okay.

Jason Yarusi (00:22:16) - For how long? But there's a lot of things that keep us at these rates. Right. The job market, a lot of things are just really strong right now. And so the world is also having other constraints. That's just kind of putting pressure from everywhere else. But we come into an election season. You see how that goes. You know, there's all these drivers that are outside of what's good for the country that pushes the direction of what the Fed may be making a decision, even if they say they're completely (inaudible).

Tejas Gosai (00:22:38) - You’re nailing it. I don't know, since Covid it's like nothing just gets less crazy. It's just something crazier. And I hate run-ups to the election because the internet is just not a safe space anymore. And you know, the text messages, the nonsense. And I'm a fan of the holidays and everything, but, you know, people check out November 15th until January 5th. It's like, you know, where are you going? So bitter motivation.

Tejas Gosai (00:23:05) - If you could help me, what do you tell the guys who are still trying to get into real estate? You know, they want to buy their first three units, five units a little bit different than what you and I are doing. But I'm a realtor. I still help a lot of clients that are I'm like, every year I'm like, come on, now's the time. Now's the time. It's okay. It's okay. How do you motivate some folks?

Jason Yarusi (00:23:22) - You know, the hardest thing is to be specific with what you want, because everything that just sounds good, I want to buy a multifamily property could just be a tremendous amount of things. 3-unit, 10-unit, 100-unit, build today, built 20 years ago, built 100 years ago. Right here, Des Moines, Iowa. Reno, Nevada. Like all that could be out there. So the more specific you want, the easier it will be for you to find what you're looking for.

Tejas Gosai (00:23:44) - I like that. We're getting close to time.

Tejas Gosai (00:23:46) - How does somebody get a hold of you? How do we invest in you?

Jason Yarusi (00:23:49) - That's great. So yarusiholdings.com is where my website is. They have all of our contact information. Want to learn more about what we do as a company here. Some of the projects we have under our belt, some of the other ones that we've gone through, we're happy to set up an investor call with you. We launched a new podcast outside of our Multifamily Podcast called Live 100. So a lot about the most message that we live each and every day. So you're welcome to check that out as well.

Tejas Gosai (00:24:10) - That is awesome. I got to give my full endorsement too because, Jason, I've seen you on social media. I absolutely love what you do, and I don't think there's enough people that are this communicative and like, just honest about what's happening. Everybody out there check out Jason's stuff. It's just incredible. And Jason, thanks for coming back on.

Jason Yarusi (00:24:30) - Yeah. Awesome to be here.

Tejas Gosai (00:24:33) - For sure. That's Jason. Yarusi Holdings. This is Tejas Gosai.

Tejas Gosai (00:24:37) **-** rei.mba We got a bunch of cool stuff on the website, iTunes, Spotify, Stitcher. Cheers. Jason, thanks again.

[END OF INTERVIEW]