J Scott (00:00:00) - I like to look back to 2008 and say, what happened in this market in 2008 because while a lot of markets have changed considerably, the demographics have changed. The employment outlook has changed. Things may not be the same as 2008, but 2008 is a good baseline, a good place to start to see how bad a market got hit because a lot of the markets that got hit in 2008 got hit for reasons that are foundationally related to how those markets are going to handle a recession. If we had another big recession, things that happened in 2008 could happen again.

Tejas Gosai (00:00:32) - 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.

Tejas Gosai (00:01:08) - If you're listening, I am rooting for you and you're already on your way to financial freedom. Cheers, and happy hunting!

I'm Tejas Gosai. I get the best guests on our program. It's Real Estate Investor MBA. We have J Scott with us today. I've read your background. You are flourishing. I can't wait to share. Welcome to the show.

J Scott (00:01:35) - Thank you so much. I'm thrilled to be here. I appreciate you having me.

Tejas Gosai (00:01:37) - Yeah, it's kind of tough to give a synopsis about you with how much stuff you got going on, but please give us the story. Tell us how you got here and welcome.

J Scott (00:01:48) - So I am an engineer and MBA by education and previous career. I spent most of my corporate career in the tech industry in Silicon Valley. 2008 my wife and I decided to get married. She was in the tech industry as well. We were both working ridiculous hours. I mean, she was working 60-70 hours a week. She was traveling three and a half weeks a month for her job.

J Scott (00:02:10) - I was probably pretty close to that. And so when we decided to get married and start a family, we knew that that wasn't the lifestyle we wanted to maintain. Long story short, we quit our jobs. We moved back to the East Coast. We fell into real estate investing. Not that interesting of a story, but it was purposeful. We flipped our first house, which led to a second and a 10th and a 50th and a 400th. We were house flippers for about a decade, and then in 2018 decided to make the transition into multifamily. And since 2018, I've been a multifamily operator syndicator with my partner, Ashley Wilson at Bar Down Investments.

Tejas Gosai (00:02:48) - Thank you. How do we hit your website?

J Scott (00:02:49) - Anything anybody wants to learn about me, you can go to JScott.com and that'll link you out to everywhere including our Bar Down Investments website.

Tejas Gosai (00:02:57) - Awesome. Now we got to back up a bunch. So you went through a bunch of changes. But from that 2008 period and all of that madness to Covid and and now and that's been the multifamily time, right?

J Scott (00:03:11) - Yes.

J Scott (00:03:12) - 2018 till now.

Tejas Gosai (00:03:14) - 2018. That's what I meant to say. Tell me about that. How did you start in that world? What was the first deal like? And you grew it and scaled it. That's your claim to fame. Give me the good stuff.

J Scott (00:03:23) - Yeah. So again, we did single-family for about ten years. We did many hundreds of flips. And by 2018 I was completely burned out. We've been successful in this business, I believe, because we focus on the business side of things. I'm not a real estate guy. I don't swing a hammer. I don't like to manage contractors. I don't even really like the nuts and bolts of real estate. I like the business aspects. And what I found was after ten years, that scaling a single-family business is difficult. It's very much a step function scaling. And I got to the point where I just didn't want any more headaches or hassle. And so in 2018, I was about ready to leave real estate for good, go back into tech, do some consulting or some advising, or sit on some boards, whatever it was going to be.

J Scott (00:04:06) - But I got back all of this cash that I had been flipping with for many years, and so we were doing 10 or 15 houses at a time, and so got back a lot of cash when we sold off the bulk of our single family. And I had to decide what to do with that cash. In 2018, I was looking at the economy. I felt like we were nearing a recession. It just felt like things were getting a little bit hot, and we saw some economic indicators that indicated that things were going to soften. And so in 2018, I said, “Where would I want to put my money if we were heading into a recession?” And I decided multifamily was the…

Tejas Gosai (00:04:40) - Least risk mitigating.

J Scott (00:04:42) - Yeah. And so what I found was in my research that multifamily real estate tended to have the best risk adjusted returns of most asset classes, certainly of any real estate asset classes up until that point. And so I thought, “Okay, well, multifamily is a good place to put my money, but I don't really trust other people to invest my money for me.”

J Scott (00:05:03) - So going in as a passive investor just wasn't interesting to me. And I said, “If I'm going to put money in multifamily and I've been doing real estate for ten years - I know the space pretty well - at least let me operate my own deals about it.

J Scott (00:05:20) - I'm a control freak. And so I was willing to admit that I just needed to maintain control, at least for a while longer, till at least I knew the industry, and I knew the asset class well enough that I could vet another operator, and I could vet deals, and I could be comfortable handing over my money because I could do the due diligence. So I reached out to my friend Ashley, Ashley Wilson, who was doing multifamily for a while up until that point. We had known each other for a while, and I basically said to her, “Look, I want to learn this space. Can I come work for you for a year? I'll volunteer my time, my effort, my money, my Rolodex, whatever you need.”

J Scott (00:05:54) - “You've got me for a year. All I ask in return is let me shadow you and learn the business.” And she thought it was a great deal. I thought it was a great deal. And so through 2018, 2019, I worked for her and her business. And in 2020, we realized that we had a great partnership. There were a lot of complementary skills. The things that I was really good at, she hated doing; the things she was really good at, I didn't want to do. And so we said, “Hey, let's partner up and make a go with this together.” And so in 2020, we partnered up and bought a little over 1000 units since then. And we're still going strong.

Tejas Gosai (00:06:29) - Wild. And bluntly was it like January, February, March when you partnered and then Covid hit or was it after Covid?

J Scott (00:06:35) - So we started having the conversation in late 2019. We decided in early 2020, and we actually got our first deal under contract in February of 2020, our first deal together.

J Scott (00:06:47) - So it was my first multifamily deal in February of 2020. We ended up pushing that out. We closed on that deal in September after renegotiating and doing some additional due diligence, seeing where the market was headed. But yeah, it was a little scary that literally my multifamily career, for the most part, started about three weeks before Covid hit.

Tejas Gosai (00:07:05) - I understand, and I will share this. My partner and I, Jeff, we started our fund in 2019. We started all the paperwork, SEC stuff and we raced to get it off the ground. It was like March 2020. Yeah, it was crazy. And so like, you know, we paid like 100 and some thousand in fees, just that. And so we ended up taking a one year long pause, just like, let's see what happens here. This is crazy time. We don't want to go launch some big fund and have some issues. But that's very cool that you went forward and slammed that property post-Covid. How did you go from there to this many units in such a short period of time, and how big are the the deals you're buying?

J Scott (00:07:45) - Yeah, in all actuality, I think we've actually scaled a little bit more slowly than a lot of groups do.

J Scott (00:07:50) - Again, I was looking to invest my own capital in these deals. I was looking for a vehicle for myself. Ashley also uses these investments as a vehicle for her capital. We certainly bring in a bunch of other investors, but for us, because we're putting a significant

portion of our capital in these deals, we've been very conservative. So in 2020, we did that one deal. In 2021, we did no deals. In 2022, we closed two deals. In 2023, we launched a fund that purchased a couple deals. But for the most part, those are the five deals that we've done together, on average, about 200 units per deal. In reality, it's most of them are around 150 with one larger one over 400. So I know there are a lot of folks in this business that have scaled more quickly. But for us, it's it's not about how quickly we scale. It's we're very conservative both for ourselves and for our investors.

Tejas Gosai (00:08:38) - It's incredible. I love your answer. Thank you for that.

Tejas Gosai (00:08:41) - And it's funny because everybody relatively is like, you know, scaled this that, you know, you don't know. I've interviewed a lot of people. That's tremendous man. That's really like relatively speaking incredible. And also going into that asset class and a, you know, not that soon before that and then also launching a fund. Let's get into that. So that's a big crazy thing that happens. And we can be blunt about this. I have a lot of folks I interview. It's like you start out single family, then you go to multifamily, then you get to a place where you have to level up to get the bigger deals. Can you share that part of the journey? What made you switch what you did?

J Scott (00:09:16) - Yeah, for us, the fund wasn't so much a graduation. It wasn't advancing to that. For us, it was more opportunistic. I come again from the tech industry. I did some M&A and some VC work. A popular asset class or investment class in the tech world or in business investing is this thing called preferred equity.

J Scott (00:09:34) - And it's basically investing in a class of shares that's lower risk than typical investments. Basically, you get paid first and you have priority over the other investors in the deal. So it's lower risk because you're going to get your money back and your profits back before other investors in the deal. So 2022, I had a lot of investors who were telling me, “Look, we're still very interested in investing in real estate, but we're slowing down because we're concerned about the economy. We're concerned about the trajectory of the asset class. We're just waiting for the really good deals again. We invest our own capital.” We were thinking the same thing. We were looking for something that was lower risk, or we were looking for a deal that we thought was the home run type deal. Those deals just didn't show up last year. And so instead of waiting for the great deal to come along, we decided why not start a fund that invests in lower risk assets, specifically preferred equity? So we launched this fund that invests in this special class of shares called preferred equity, where investors can get priority over other investors in the deal.

J Scott (00:10:32) - So there's more likely that they'll get their capital back. Obviously, we're not making as much in terms of returns, but it's a lot lower risk. And so that was very attractive to our investors. And so for much of the last year, we've focused on how we can grow that fund and how we can provide these better risk adjusted returns to our investors than traditional syndications. And I think it's something that will have great opportunity for the next year or two, maybe even three. But I think as the market starts to rebound and we hit bottom and things get

better, I think a lot of investors in general out there in this asset class are pretty risk-tolerant. They're willing to take risks. And so I don't think that this fund in particular is going to be a long term play for us. But I think it's the needs of our investors and Ashley and myself for today.

Tejas Gosai (00:11:14) - Brilliant. I mean, it's always good to be able to take down inventory. You use the word opportunistic. Let's talk about that.

Tejas Gosai (00:11:21) - You've come a long way now. It's this year or I mean, let's say past six months. And what we're looking at over the next six months. You're talking to investors. What are you waiting for? What are you looking at? What are you being aggressive on? What markets?

J Scott (00:11:34) - I don't have a crystal ball. I don't know where things are headed, but one of the things I like is that multifamily, for the most part, took a big hit last year between March of 2022 and August of 2022. Most of the markets that we looked at, and certainly the markets that we're in, took a 25% or 30% hit on values. Cap rates went up, noise dropped a little bit, and vacancies increased. We saw a big hit for the first four or 5 or 6 months after interest rates started to rise. The interesting thing is, since August or September of 2022, we haven't seen much of a movement in values in the multifamily space. Now, some of that is there's been such low transaction volume, that it's hard to get any price discovery because we don't see a lot of transactions.

J Scott (00:12:17) - Another part of that is that we just haven't seen a big drop in the market since last year. Most of the big drop happened right after interest rates started to climb. Things started to stabilize. So that gives me some reason to believe that even if we're not at a bottom of the market, we're well off the top, and we're probably a lot closer to the bottom than we are to the top, which gives me the confidence to go into some deals, even if they're not home run deals, knowing that we have some likely downside risk aversion or mitigation simply because we're probably closer to the bottom at the top. And if we can keep cash flow steady and not have to worry about running into any issues with the banks or our investors for the next year or two, I'm comfortable that we'll start to hit the other side of the curve, and things will start to go back up.

Tejas Gosai (00:13:01) - Are you analyzing a bunch or are you still looking at a bunch of deals? How's that pipeline going for you?

J Scott (00:13:06) - Yeah, we've seen a whole lot more deals come through our pipeline in the last three months than we had in the previous 18 months, so that's promising.

J Scott (00:13:15) - A lot of those deals, they're still not penciling, but they're closer. We likely to make offers on every deal that comes into our pipeline even if we're off by 20, 30, 40% of list price or whisper price. So we make a lot of offers. We were off 5 or $10 million on some deals last summer. Now we're still off by 1 million or $2 million. So that means either the sellers are getting more reasonable or demand is dropping, or maybe there's some just coming together of

supply and demand, but it's certainly looking like we're getting back to a market that's a little bit more efficient, and there's going to be opportunities in the near future.

Tejas Gosai (00:13:48) - I like that I'm also just hungry for deals. When you say the word penciling, let's say, I don't know what that means. Tell me about what that means for you guys.

J Scott (00:13:55) - The market investors are demanding some level of return. And so when we analyze a deal, the first thing we need to do is we need to see if our investors can get the return that they are going to need in order to take the risk of investing with us.

J Scott (00:14:10) - And obviously, we want to make sure that it's reasonable that they're actually going to achieve those returns. Just because we could do 20 deals this year, it doesn't mean they're all going to go well. And if the deals don't go well, our investors aren't going to come back. So we need to be comfortable that these deals can generate the returns our investors want them to generate. And then at the same time, after our investors get the return, we need to make sure that we're generating enough profit on our side that it makes the deal worth it. I've seen a number of operators over the last year and a half that I believe are doing deals that work for their investors, but are very thin for themselves as operators. And while that's noble of them to do those deals, if they're trying to keep their investors money working, the concern I would have is that if an operator isn't necessarily going to make much money on a deal, if things start to get tough, what incentive do they have or how much incentive do they have to focus a lot of their time on that deal versus a new deal that might have a lot more profit potential? It really needs to be.

J Scott (00:15:07) - When I say pencil, I mean underwrite the deal, analyze the deal, and ensure that it's very much a win-win for both our investors and ourselves.

Tejas Gosai (00:15:14) - Brilliant. What exact markets? You said 250 units per deal type.

J Scott (00:15:21) - Yeah. We average probably about 200 units per deal. Historically, Houston has been our major market. Most of our units are in Houston. We have seen some turning tides in Houston over the last couple of years. Houston took a really big hit with evictions, and there's about an 80,000-tenant pipeline for evictions in Houston. And so it's taking a very long time relative to how long it used to take to evict tenants. So we're racking up bad debt on a lot of our properties, insurance costs with the hurricanes that we've seen over the last couple of years and the weather changes, insurance costs have gone through the roof in Houston. And so units that we were spending $800 or $900 per unit on insurance or up to 15, 16 to $1800 per unit on insurance now. And so that's requiring us to operate more efficiently and really know our numbers well.

J Scott (00:16:09) - And luckily, we got in with some really good debt terms on these deals. But we've seen struggles in Houston like everybody that's in that market. And so we're starting to look at other markets because we're not convinced that. The insurance situation is going to

rectify itself in the near future. So we really like the southeast - North Carolina and South Carolina, good population growth, good employment growth deal, very reasonable pricing.

Tejas Gosai (00:16:31) - When you say we're looking, does that mean you're looking and you're analyzing and you're like about to go attack that market?

J Scott (00:16:38) - So my team is very much looking in a bunch of markets in North Carolina, South Carolina, Georgia, Tennessee, and the southeast are the markets that we really like right now.

Tejas Gosai (00:16:47) - Yeah, by land, by air, by sea. If you got to go to where the deal is, you're going to want scalability there at least, like efficiency and taking over a bunch of properties in one area. Yeah.

J Scott (00:16:58) - And what a lot of people who are new to this business don't realize is unfortunately, it's not as easy as saying, hey, there's a market, let's go attack it and you get a deal in a month or 2 or 3.

J Scott (00:17:09) - A lot of times for these size deals, they're being controlled by brokers, and some handful of brokers are basically dealing with these large properties. It can take time to build relationships with those brokers and convince those brokers that one, you're serious, you can close, and that they should be working with you over other buyers in the market. And those relationships can take months or even years to build. I mean, we spent a half-decade building those relationships in Houston, and we're starting over in these other markets. So it is very much a long-term commitment every time you move into another market when you're doing deals of this size, that's great.

Tejas Gosai (00:17:43) - Even property management companies and the local municipality, yeah, like eviction stuff matters then and things you don't want to think about.

J Scott (00:17:51) - Absolutely.

Tejas Gosai (00:17:52) - What are some of the indicators or specific indicators, best indicators that you use to look at these?

J Scott (00:17:57) - When we're looking at a market, the three big ones that I think a lot of people in the industry look at are population growth, employment growth, and wage growth.

J Scott (00:18:04) - Your customer is the tenant for the most part. You want to see that you have more customers moving into the area. You want to see those customers are employed and have good jobs, and you want to see that their wages are going up faster than inflation. So the big three that we look for are population growth, employment growth, and wage growth. For me, a big one is employment diversity. I want to see that there are a lot of different industries in a market. Because I remember 2008, I was investing through 2008, and I've studied a lot of

economic history, and I recognized that during a downturn, a lot of times it's one or 2 or 3 industries that can get hit hard. So if you look back at 2008, the places that got hit the hardest. Orlando, Las Vegas, and LA, are places that are high tourist areas because people weren't spending money on tourism. And so if you are investing in a market that relied on tourism, you were probably struggling during 2008 if you were a property owner.

J Scott (00:18:58) - So I'd like to see that there are a number of different industries that make up the backbone of a market. So if any industry takes a big hit, or if any one company takes a big hit. I worked for Microsoft for a really long time, and so I know that pre-2008 and 2007 investing in Seattle if for some reason something happened to Microsoft, you could lose a whole lot of tenants overnight. Now that market's changed in the last 15 years. But there are a lot of markets. I mean, if you invested in Detroit in the late '80s and early '90s, the car industries, you took a big hit when there were a lot of layoffs in the car industry. You have to be careful with employment, and diversity, and we like to see areas that have a lot of that. I like to look back to 2008 and say what happened in this market in 2008 because while a lot of markets have changed considerably, the demographics have changed. The employment outlook has changed.

J Scott (00:19:50) - Things may not be the same as 2008, but 2008 is a good baseline, a good place to start to see how bad a market got hit because a lot of the markets that got hit in 2008 got hit for reasons that are foundationally related to how those markets are going to handle a recession. If we had another big recession, things that happened in 2008 could happen again, I love it.

Tejas Gosai (00:20:10) - Let me bring up something cool before we run out of time. And I think you'll agree, it's actually been neat to see how the fed has dealt with inflation and all this stuff over the past few months. This is the first time in history that it was like, let's go. You know, we're not going to let anything happen, but like it's a blessing. So many folks don't realize how good this is. Do you want to talk about that before we get to go?

J Scott (00:20:35) - Yeah. So it's been a tough year and a half for a lot of people. I did write a book on economics related to real estate.

Tejas Gosai (00:20:42) - Please share that.

J Scott (00:20:43) - It's actually what's right there. That book, it's called “Recession-Proof Real Estate Investing”. It's an economics book, but specifically geared towards real estate investors to understand market cycles, how market cycles work, and how they can leverage knowledge of those cycles to improve their businesses. The last year and a half has been interesting. A lot of people believe that the Fed tightened too quickly. They raised rates too quickly. It's a hard job. It's a really hard job. And everybody, everybody is a Monday morning quarterback. It looks like they did things correctly this time. I'm not sure if they did that on purpose or if they kind of just backed into it. But I suspect typically we see a lag. In the tightening of the financial markets, whether it's interest rates or the fed selling off their books. Typically we see a lag of 6 to 9 months between when they take action and when it actually hits the market. And we were

tightening up until just a few months ago. And so it's very possible that a lot of that tightening from a few months ago could still be working its way through the system.

J Scott (00:21:41) - So I suspect that they've overcorrected a little bit. I suspect that they suspect they've overcorrected a little bit.

Tejas Gosai (00:21:47) - Has to be on purpose.

J Scott (00:21:49) - Yeah. And they're signaling now that they're willing to drop rates or to put more onto their balance sheet if things start to turn and soften in the market. So I think that's the right move.

Tejas Gosai (00:22:00) - I'll add to what you're saying. This is a historic low still. Yeah I mean I'm in my 40s, but like there are some people, my mentees and they're like, “Oh my God”. And I'm like, “Dude, look at a history book.”

J Scott (00:22:11) - My first bank account, my first savings account. I was getting 18% interest.

Tejas Gosai (00:22:17) - What year was that?

J Scott (00:22:18) - It was in the ‘80s. I was a teenager. So I'm in my early 50s. And so yeah, I remember I wasn't obviously buying houses back then, but I remember those crazy interest rate days and.

Tejas Gosai (00:22:29) - People were. People were buying houses. People were building businesses at 25, 30%.

Tejas Gosai (00:22:34) - It was crazy.

J Scott (00:22:34) - Yeah. So I suspect that we'll have a softening over the next couple of months. I suspect that the Fed will react appropriately, and I think we can avoid anything major for this year especially. It's an election year, so both sides will be pulling out all the stops to avoid anything major. And I expect a pretty uneventful year economically speaking.

Tejas Gosai (00:22:53) - That's actually nice to hear. And that is the crystal ball stuff I usually ask for. You know, you didn't say anything that is unreasonable or risky, which I love. You have a great book and open book in the way that you share and present everything. I would invest in you. How does someone invest in you or get ahold of you?

J Scott (00:23:11) - Well, if anybody wants to connect with me, reach out. I'm pretty easy to get Ahold of. Go to J Scott - the letter J. Jscott.com, and that'll link you up to everything you might want to.

Tejas Gosai (00:23:23) - And I'm interested in this book that you just pumped out. That's very cool.

Tejas Gosai (00:23:27) - How do we get ahold of that?

J Scott (00:23:28) - So again JScott.com, there's a link there to see all my books. I've written five books and if anybody follows me on Facebook I do a lot of long-form writing on the economy. I have a newsletter that goes out once a week - long-form on the economy. I'll mention this. We have a podcast. I do a podcast called Drunk Real Estate with three other co-hosts. One of my business partners, Mauricio Rauld, who is a well-known syndication attorney in the space, and AJ Osborne, who owns about a half billion dollars in self-storage. We get together once a week and we just opine on economics and real estate markets and anything related to investing. And so check out Drunk Real Estate. The Drunk Real Estate podcast.

Tejas Gosai (00:24:08) - Are you guys drinking at that time?

J Scott (00:24:09) - We do. We all bring a drink sometimes. If we get an hour or an hour and a half into the show, it gets more interesting. But yeah, yeah.

Tejas Gosai (00:24:16) - That's awesome. Well, listen, thanks for making it here.

Tejas Gosai (00:24:19) - Beautiful interview. Great work you've done.

J Scott (00:24:21) - Hey, I appreciate it so much. Thanks so much for having me.

Tejas Gosai (00:24:23) - For sure. That's J Scott. This is Real Estate Investor MBA. I'm Tejas Gosai. Check out our website: REI.MBA. Cheers!