Voiceover: Welcome to the REI Diamonds Show with Dan Breslin. Your source for real estate investment, Jewels of Wisdom.

Dan Breslin: Welcome to the REI Diamonds Show. I'm your host, Dan Breslin, and this is Episode 194 on getting high return on investment through co-living with Johnny Wolff.

If you're into building wealth through real estate investing, you are in the right place. My goal is to identify high-caliber real estate investors and other industry service providers, invite them on the show, and then draw out the jewels of wisdom, those tactics mindsets and methods used to create millions of dollars and more in the business of real estate.

Johnny Wolff is the CEO and founder of the tech company, HomeRoom. HomeRoom is one of the fastest-growing co-living companies in the US. Johnny founded HomeRoom after a career as an analyst in Silicon Valley and then relocating to Austin, Texas, where, in both markets, he actually lived in co-living situations.

Today's discussion centers around how investors can obtain outsized returns by investing in co-living housing. Co-living is a trend where many young people prefer living with roommates for both social and economic reasons. This trend exists throughout the US, and a new industry is arising to provide a professionally managed experience to both the residents and the landlords. Shall we begin?

All right. Welcome to the REI Diamonds Show, Johnny Wolff. How are you doing today?

Johnny Wolff: Good, Daniel. Super happy to be here and thanks for having me.

Dan: Nice. It's an interesting business model. So when the booking agents connected us and floated you as a potential guest, I noticed this like, renting rooms kind of a thing, and it probably would be helpful to hear the origination story. Maybe what was the background, some of your experience, even pre-real estate investing? Certainly, a business model now. And then cap it off with kind of the business model as it stands today.

Johnny: Sure. For the last few decades, I've lived with about fifty different roommates. I think it's kind of ongoing growth. I still live in roommate houses. But it really started after college. I lived in Silicon Valley. I worked in finance for technology companies and startups in the bank. And when you're in Silicon Valley, you rent rooms. You don't buy houses because they're all million dollars.

And so we kind of developed different ways of finding new roommates on Craigslist and betting them, and then having really cool dinner parties. And honestly, our roommate house is like the hub. Some people lived alone, but they were boring. And people that lived in roommate houses, they're the fun ones, and they had the cool stuff going on.

So I move to Austin, Texas in 2015 to invest in real estate more actively. I have been investing in single-family homes in Texas since 2008, which was about a year after I got out of college remotely and wanted to do that up close. And so I moved to Austin, bought a number of properties there in 2015, and turn them all into roommate houses.

And it was difficult to cash flow. It's impossible to cash flow in Austin or very difficult. We can do it with home remodel, but it was pretty hard back then, too, with a standard rental and good area. So by renting by the room, I was able to get a lot more rent, and that enabled me to buy more aggressively while I was down there.

I moved to Kansas City in 2018 to kind of do it again with a different type of property. I kind of think of Austin as a really awesome appreciation potential market, but Kansas City is really stable as it gets cash flow. So I wanted to balance my portfolio.

And then when I moved here, I had a lot more trouble finding roommates than I had in Austin and San Francisco and thought maybe it's about time that someone figures out this whole find-a-roommate situation where it's not through Craigslist or Facebook Marketplace, and it's not sketchy and weird and uncomfortable.

So that's why I started HomeRoom in 2018, and we've, since then, housed over four hundred roommates in Kansas City, Austin, and Dallas. And yeah, we're pretty happy campers on the tenant side. Now, we're partnering with investors to buy these properties in these cities and happy investors as well.

Dan: Yeah, it's pretty cool. So I got in the business back in 2006 myself, buying single-family houses. Didn't have a dime to my name, I thought I'm going to go flip houses. And I'm sure that my friends, family, everyone's like, "Man, this guy's nuts. He's unemployed, doesn't even have a car right now." And fast-forward, we're at 2021, I got a car. Finally.

Johnny: Nice.

Dan: I remember, around 2007, one of the kind of guys I was doing business with, he hatched the plan to rent by the room, just like you said. "Oh, my gosh. I'm going to rent rooms. I got ninety-seven properties and three, four, five bedrooms. I'm getting such and such a cash flow for each one," and it's attractive on the surface when he looked at the numbers.

This is in and outside to Philadelphia area. We're not talking about well-selected suburbs. We're talking about any rental property that he happened to have at the time was going to be converted to rooms, build out two additional rooms in the living and dining room, no concern, probably, for the experience of the people who are renting the rooms there, whatsoever. It was all about rent per room, extra cash flow.

And we fast-forward, say a year and a half, and he's dealing with drug addicts. And this one sold the refrigerator, and we're getting arrested. And zoning issues, and so much stuff that I, certainly, was like, "Yeah, I don't think this is a viable business model at all."

And then when I saw HomeRoom, and I did some research, I said, "Wow, there's a kind of this full rebranding," or certainly, this different tenant life experience that you guys have seemed to create. And then, as you tell the origination story, Johnny, it's like, "Oh, okay. So Silicon

Valley." We have these somewhat randomly placed people, who are now in a living roommate situation, who are like hatching the next startup business model.

I think of probably a crude example that people who have experienced Silicon Valley probably laugh at. But to show Silicon Valley, they're like living in the roommate situation or anything. Okay, I see where this starts to make sense, and it's like another completely different level and position than the renting of rooms. I'm sure a lot of people listening to the podcast now have heard the same kind of experience that I just described where someone is renting rooms for cash flow and it's a very, shall we say, challenging situation for almost everybody involved.

So it's cool that you've done that. But I scratch my head and I wonder, so how do you deal with the zoning issues, Johnny?

Johnny: Yeah. I mean, typically, the big question on zoning is, is it a short-term rental situation? And so with single-family homes, if you're doing roommates and you're doing weekly, you start to talk to cities about doing a boarding house or you have to start getting a short-term rental permit.

HomeRoom's average stay is about a year. And typically, cities call a number of unrelated individuals a family. So there's not really a zoning change, whatsoever, for any of our properties, not sort of something we evaluate as we go into the property, make sure that we're going to be okay in terms of compliance. And that our goal is to have our investors be able to hold these properties for a long time.

And just like a stabilized single-family or stabilized multifamily where you've kind of done a lot of work to get high-quality people in there, rebranded it so that if those people leave, you can get new high-quality people in there, that's kind of always what we're thinking. And right now, we're at 98% occupancy right across all of our single-family homes. We're adding, I think, about a hundred rooms in July and early August combined. So it seems to be working.

We haven't dealt with cities in the history of our company. We've had some minor interactions with city boards, city councils in which we kind of told them, this is what we do and this is how we think about it and our goal is to make neighborhoods better. And so in all cases, we've been able to just keep going. And we just explain that we are not doing what your friend did.

We think about parking very thoughtfully. Like, is there enough parking on or in front of the property? We make sure that the roommates, in every kind of aspect of the home, can sit together in the living room. There's enough seating for them, and they can have relationships. There's a dining room table they can all eat together. And then we kind of identify wasted space.

There's a lot of ways with square footage in the United States. The average square footage per person in the United States, I think, is over 1,000 available. But the problem is you have couples who live in 5,000 square foot homes. And then you have a bunch of homeless people. So what HomeRoom is doing and some other companies in the space are doing is taking extra square footage that frankly, is just not being used by anyone and is using it for young adults to kind of get their life started, kind of get through their student debts, make connections.

One of the biggest things that we've sort of seen and kind of intuitively doesn't feel right to most people off the bat is that young adults prefer to live with other people. And I think humans intuitively or I think Hollywood or something has told us at school, once you're twenty-four, to live in a nice apartment. That's being cool. But that's not what we're seeing today. The average twenty to thirty-five-year-old, 80% of them live with their family or with roommates. So I think people don't like living alone that much. Maybe for short spurts, but they really are meant to live in a family.

And that's the vast majority of all humans today, live with other people. And so this is kind of creating this bridge between college and when people are getting married between twenty and thirty-five or forty now, in which they can have their own kind of mini family, like New Girl or the show, Friends. That's very widespread, much more widespread than I think. Most folks that are past that stage understand how big it's become.

Dan: Yeah, it's interesting. I guess I've heard some rumblings, read some stuff on maybe Curbed or one of them where they were literally building these high-rise apartment buildings that were built for co-living. And I think I saw the article right as COVID was coming through, and we're all thinking, "Yeah. Well, that timing kind of... you know." But probably didn't even impact them when it all cycled through, ironically, for all of us.

And you describe, dealing with zoning issues is probably one of the first things anyone listening is thinking. If you're renting rooms, you're going to run into zoning. I've talked to code enforcement officers, this is a problem. But I would liken that to perhaps taxis with Uber, and you have the taxi licenses, the medallions in the different cities, and it's like that would have been probably the first thing that the anti-Uber investors, who were taking a pass on that deal early on, would have said the same kind of a thing.

So we have this the same disruptive business model, but making use of this additional capacity, you're saying, is the square feet is not being used along with the same legal challenges that you would find going into certain areas and neighborhoods and things like that, which I don't know. I mean, you may run into stuff that becomes impassable, maybe not. Maybe you find places that work well. But in the meantime, you're kind of plugging them together.

So let's talk about the tenant population there. Who are the tenants? How do you actually end up finding them? You've mentioned Craigslist and Facebook Marketplace. I wonder if there's a way to kind of convert them through a separate type of funnel that you're able to qualify them better. I can assure you that there was no criminal background check on the old way of doing it that you described at the beginning of the episode versus this.

Johnny: I mean, when a guy's on fridges, you know that this kind of quality is not like...

Dan: Not good at all which, hey, I mean, people land on at the bottom of life there and have to like restart. In that situation, perhaps there were people who would have been homeless if he wasn't providing that service at that level.

Johnny: [inaudible].

Dan: But I'm guessing yours is a little bit of a different niche. I mean, you've already described a different niche completely.

Johnny: Yeah. I mean, when we list our properties, we're the list price in some rooms is $350 a month. So it definitely appeals to a lot of people because if you have a lot of money or a little money, 350 is a good price, right? But we screen very vigorously.

We have a video interview with everybody. We do a background credit and eviction history checks with every tenant. Then we actually do a video call with the current roommates and the future roommate to make sure that's a good fit for them. And if either side feels uncomfortable, then we can kind of make sure that we could maybe unwind that and have them go to a different property.

So the average tenant is about twenty-seven. We skew slightly male. Credit score, a bit above seven hundred. And so we've actually never, in the history of our company, had to evict anyone. And today, we've never had a fridge sold. So that's my favorite soundbite from the many podcasts that I've done in a while. But yeah, so they haven't done that. That hasn't happened.

But you're basically a little micro-community, so there's a lot more that goes into it. I mean, I own a number of just single-family homes that aren't roommate rentals as well. I text them once every three months, "How's it going?" All fix that fine. But with roommates, you kind of have to manage the community and coach it up, create a structure or framework. And that's part of the product that HomeRoom has built and is building.

But I don't think we're particularly brilliant or anything. I do think other people can do this. But I think the wrong approach is kind of what your friend did, which is like just going to maximize the space. It's sort of just like any other asset. If you try to increase yield, quality generally goes down. So if you invest time and money and thinking through the co-living space, I think you can get great returns.

Dan: Yeah, it makes sense. Why do people prefer the living arrangement? So it's a cost thing, but it kind of touched on the community and a family thing. Are there some other intangible benefits that aren't immediately obvious to people listening?

Johnny: I mean, those are the number one and number two by a long, wide margin, I think, for each person. Some people, community is number one and price is number two. Most people, price is number one. But there is definitely this people are moving from another city. And this is what happened to me when I moved to Kansas City. It's like it was really difficult for me to find good roommates.

I talked and I had some awkward encounters with people. And I just kept trying and finally, I found somebody. But it wasn't fun. People that are moving to new cities, it's really nice to plug directly into social circle. Once I found that roommate community, we went to bars the first weekend and we hung out and I met their friends and went to barbecues.

The other option would be, to me, moving into a really nice studio, which I could have afforded. But then, just kind of like, "Now, what do I do?" Go to bars alone. I don't really know anyone. So I do think that the community aspect and the social connection are just really, really big to a lot of people.

The other thing is simplicity and flexibility. And we've kind of heard about Millennials, they like to be more migrant. They leave jobs sooner. In addition to that, they are going to move cities more. We actually have a membership agreement with our residents, and they can hit a button in the app and transfer houses. That you can move from Austin to Kansas City. Just pick up and go. You could just load your car and you're good to go. So I think membership-based housing is another thing.

.And that flexibility, it's in our leases. It's a membership agreement, any property. I think it's going to become more and more widespread. We're seeing it with properties like with companies like Arrived Homes and Zeus and all these ones where it's kind of like you hit a button in your app and you can go somewhere else. So I think that's interesting, and I think that's something that people really like as well. It's like I may be locked into a membership agreement with you guys, but if my job changes and moves thirty minutes north, I can just kind of move up there with no issues.

Dan: Nice. And that gets better and better the more inventory that's actually in the system. Yeah, and you mentioned the community. So I moved from Philadelphia to Chicago about five years ago so I could be near my daughter. And I struggled from drug addiction and alcoholism for a large chunk of my life up until 2012, and I've been clean ever since.

Johnny: Congrats.

Dan: And I got clean. Thank you. I got clean and I got sober with the help of twelve-step programs, AA and A, that kind of thing. But when I moved from Philadelphia to Chicago, I didn't know anybody. And I was lucky enough that those twelve-step programs plug me into that immediate social circle.

So I didn't have a roommate at the time, but I have countless new friends, a whole community. Just like as if I grew up in the city of Chicago, even better though because there's just a random collection of people who are not necessarily from the same background. So it's easy.

We're investors. We go to the BiggerPockets. We're talking to all the investors. We go to a meet-up that we heard about on there. We're talking with everyone who's flipping houses wholesale and keeping rentals. The whole thing, right?

Johnny: Sure, sure.

Dan: But it's a very common thread of interest, and there's not that same level of randomness that's in life from other places that you might be able to kind of invite in. I don't know that we get it from Facebook groups, and I don't know that we ever convert offline the way that I was able to do with the twelve-step program when I first moved to Chicago in a way that it sounds like your community is able to do. Even if it's six, seven, five people living in a house together, there's an amount of time to get to know somebody where it's not under the pressure of "Hey, we're hanging out at just this barbecue or we're going to hang out [crosstalk] just at this restaurant for dinner."

Johnny: Right.

Dan: There's such a limited nugget there that people don't have. So I guess I'm able to kind of relate a little bit with the roommate experience even though that hasn't really been what I lived through.

Johnny: Yeah. Yeah, picking up and kind of finding like-minded people or finding your tribe quickly in a new city like what you did with the twelve-step program. Like a friend of mine, he always Flickets [?] for softball teams whenever you move cities because he's a big good baseball player. He's actually in Chicago.

Dan: Nice.

Johnny: I should introduce you guys. And so I think being able to do that, it just makes moving fun. You get to try new experiences, and it kind of opens up the world a little bit. And so I think that's what co-living does kind of for everyone. You don't have to have that other community because we can kind of plug you in.

And even if you and your roommates don't end up being super tightly connected, we have online communities for everyone. So all three hundred and twenty-five roommates can all talk on our online social network. We do live events. We're trying to do those again. We just did one in Dallas. So it's pretty cool.

It's a perfect state as it evolves. It can be something that you move out of the country for something, you come back. You hop into a co-living space. You figure out your next job. You move to another one of our co-living spaces maybe in another city. You stay connected to your old roommates, their new friends now. And so that's sort of how we see it going. And you're saving money the whole time because it's hyper affordable.

Dan: Yeah, it's cool. It's like I wish I would have had the idea because I would have loved to have come to Chicago in 2011 or 2012 and stayed, but it took me a lot longer to kind of mentally get myself prepared to transfer to the other city, set up the house. It was like a much higher barrier to entry to stick around [crosstalk] versus, perhaps, doing it earlier.

Johnny: Sure.

Dan: So it's a cool product that you're describing there.

Johnny: Yeah. And it's freedom, right? It's new experiences, and it can kind of soften the blow of leaving everything you already know, so.

Dan: Nice, nice. So is there a specific structure of the lease or some way to kind of position this paperwork-wise? So if, like we're going to talk in a moment about, from the investor's perspective, somebody who's coming to you, Johnny, saying, "All right, I'll take a single-family. The next one on the buyer's list you sent out, that works. I'm in. I like the idea of higher ROI. I like the idea of supporting this new community. What homerooms doing is cool. But I personally need to get a little more comfortable with, let's say, the zoning issues and how we're presenting our paperwork or structure and our thought process to said organization in the city."

Johnny: Yep. Sorry, I missed the first part of that question [inaudible].

Dan: The first part is the lease. So like, is the lease [crosstalk] structured or some other paperwork structured in a way that kind of gives you a little bit of leverage to say, "Hey, here's our documents. This is what we do [crosstalk], and it's all supported here?"

Johnny: Okay, I got you, I got you. Yes. Got you. Thanks. I got really captivated with the city presentation. I was like, "That's interesting, " but yeah. So in terms of the lease, the membership, we have two. HomeRoom is kind of intermediary. We have a membership agreement with the tenants directly. Part of it is like, "Hey, if there are any city issues, you may be asked to relocate." So that's one thing we do.

We're also very cognizant of city codes. If you violate any city codes in terms of leaving your trash out, any city complaints, whatsoever, you get a warning, and then we'll find you another house because making neighborhoods a better place is super important to us. We think showing that over and over again over a long period of time will sort of help us do that Uber thing where it's like, "Okay, we do make this city better."

And in terms of our master lease with our owners, they have a lot more protection in terms of any liability with the individual tenant within their property. Because we stay in the middle, we have a general liability policy over it. And we also have a release of liability with the tenants and more flexibility. It ends up creating a legal shield for the owners.

In terms of the zoning issue. It really depends. That's a city-by-city type question. And so for example, a property in Fort Worth, Texas, legally, a family is five people or more. Sorry, not five people or more, under five people unrelated. So if you have five unrelated individuals, there are actually no zoning issues, whatsoever, because you actually have created what the city would consider a family.

Austin, Texas is six individuals. There are parts of Texas that actually have no laws. And it's the occupancy laws that are the kind of the main issue. In parts of Texas that don't have occupancy laws, the default Texas state code is two people per room. That's like the legal maximum.

Dan: Wow.

Johnny: So that's kind of what the defaults do. So if the city is silent, then you actually have a pretty open door to have a lot of people in the house. But we try to keep it within reason. We've never done more than seven, so.

Dan: Seven. Okay, seven. Is that seven bedrooms, or are a few people sharing?

Johnny: We don't share rooms. It's [crosstalk] seven bedrooms, yeah.

Dan: Yeah, it's nice. Got you, got you. So the liability insurance coverage, are we talking five-million-dollar umbrella for the owner to be kind of protected? A million? Where are we at?

Johnny: We have a two-million jail policy in between the tenants and the owners. We do recommend, obviously, the owner have a typical landlord policy. Our high net-worth individuals, we always recommend an umbrella. LLC buying is always nice too.

But in our membership agreement, we actually say, "Hey, you're waiving all liability." Sort of like rock climbing. You go rock climbing, and they say, "Sign this. No matter what happens, you can't sue us." We have, basically, that exact language in our lease because when you live with co-living, things can happen and you have to understand that you're kind of signing up for that. And so far HomeRoom has had no legal interactions with tenants of any kind.

Dan: Got you. Makes sense. And I guess the other part that would be scary to me as a buyer and an investor is if I were to buy one of these properties and we do this conversion process to go from five to seven people, let's say. And then, the city comes in and says, "Hey, it's not working," but I'm kind of stuck holding the bag at that point on a property that may not be able to sell without taking some kind of a loss.

Johnny: Yeah. I mean, I think that risk is minimal just based on just historical track record with HomeRoom. We have three years. We have house months as co-living. We have hundreds without a single city issue across twenty-three cities. We do a number of things, like I said, kind of to make sure that that is not high-risk. We also have a guaranteed rent model for some investors.

So if you come in and buy a property of HomeRoom, we actually offer guaranteed rent. So if the city does come in and if you go with the guaranteed rent model, then it wouldn't affect your income during the guaranteed rent period, which lasts for three years, so.

Dan: So you're kind of covered for three years with the guaranteed rent program. Is that the master lease that you...?

Johnny: We do two different payout structures. We'll pay a guaranteed rent master lease. Everything is a master lease. The other one is we'll pay 85% of all the rent we collect. That's what we call the revenue share model. That option, you'll make 3% to 4% higher cash flows on average based on our historicals. But the guaranteed removes kind of all risks.

So some folks are like, "I don't know about this." We have the guaranteed that says, "Hey, well, we'll take the rest for three years. We've done so much of this. We don't think it's a risk. We understand that you kind of want to wait in slowly. We're totally open to helping there."

Dan: Who pays the utilities on these properties?

Johnny: So the utilities are paid by the tenants. Each one of them pays $140 per month. It's amenities and utilities fee. And so then, we take the utilities in our name, and we just kind of divvy that money out to pay for that. We also do monthly main service, and then we grade the property for cleanliness every month as part of that.

Dan: That's pretty cool. So maids are coming what? Bi-weekly? Weekly? Something like that.

Johnny: Once a month.

Dan: Okay. So once a month, they come through. So still, a little bit of cleaning by the people there, right?

Johnny: Yeah. I mean, I think we have to understand people, the price, and kind of how much it cost per month is such a huge thing to folks in this living arrangement. So I think if we said, "Hey, do you guys all want to pay $25 per month for two maids' visits?" We have somebody like, "No." So we try to be in line with that. But yeah, you should be cleaning. The maids come to do deep cleaning and to make sure the property is in good shape.

Dan: Got it. So from a market selection standpoint, I'm wondering, is it based on zoning and experience in the area that you pick? Is it because you ended up moving to Kansas City that you pick? Or maybe, how are you going to pick the next three or four markets? What type of Market selection process do you have in place going forward and why?

Johnny: Yeah. So it's based on a few things, but it's primarily centered around our investment thesis. Our investment thesis for co-living and properties and individual demand is simply that any area with a thousand people per square mile or more has sufficient co-living demands to support co-living houses. We've seen that. We've actually gone pretty sparse in like, Olathe, Kansas. Like, does it still work? It still does. And every time you go a little less dense, like, "Is it still going to happen?" And so the demand is universal throughout the United States. So then we're basically looking for locations that are just good for real estate investment fundamentals. What that looks like in general is just increased migration. If the population is going down, Flint, Michigan, Detroit, you guys are out. Unfortunately, Memphis, Tennessee, you guys are out too. And so we're very focused on places that have healthy or average or really great growth in terms of individuals, as well as population or income growth. We see those two as the biggest drivers of property value.

A few of the other things our investment thesis we have is that we see metros as sort of generally rising together in price over time. We talked to folks who are like, "What about the neighborhood right over there that the best buys going to be in?" Well, our thing is like well, over time, ten years, with other neighborhoods a mile away, we're going to see a pretty similar price appreciation over time. Occasionally, you'll be able to beat that, but usually, metros and zip codes and parcels kind of rides together. Yeah. And then we're looking for properties that are matching exactly what we're looking for, which is a good amount of showers, good parking, and then good spaces on the inside of the property.

Dan: Okay, let's pick apart an example deal. So what would be the number of showers, bedrooms, baths, purchase price? How many people would live in there when it was all set up? How much money would an investor buying in third party? Like, if I'm buying in third party, how much money am I bringing to the table? Like, what are all the specifics of what a deal like this probably looks like?

Johnny: Sure, and that varies widely by market because we have Austin. We also have San Antonio. The price point is pretty different there. But we go through Kansas City because that's always been our home. That's where we started this thing.

So the average purchase price of a Kansas City property, I would say, is $250,000. We would recommend to investors to put down 15%. We believe in leverage. We love the interest rates. Today, we think long-term, it's like betting in America as if you bet in housing in America and good markets. So 15% down there.

And then the other piece to it is you're going to have to set up the property for co-living. So the property, in this case, is to earn 50,000. On the market, it's in kind of a good B area. It would maybe run for $1,800 or $1,600 to $1,800. Obviously, not a cash cow and it's a normal setup. But it's tight in good dense neighborhoods, It'll see good appreciation over time.

Then, when we come in, the investor would probably put in 5,000 for smart home technology and furnishings in the space and then between 0 and $20,000 in property repairs and rehab. It really depends on the property in that case if we're going to add rooms or not, if there's a lot of repairs in the inspection report or not. And then we'll be done. By the time we're done, we'd hope that that the gross rent on that property would be somewhere between 2,500 and 3,000.

So when you look at the range that it would be if you rent as a single-family, which is 16 to 18, we're trying to get 70% higher. And what that does is it allows us to offer the guarantee if you want and you're still going to make, our analysis shows, on an annual basis, you'll make like 700 to 1,000 more dollars versus a single-family rental. But with the guaranteed, with the revenue share, you'll probably make 10,000 more dollars. So that's kind of the way the deals break down.

Dan: And that's on a yearly basis?

Johnny: On a yearly basis, yeah.

Dan: Okay. So what would be the guaranteed monthly rent on that example? I mean, I'm not holding you to it, but.

Johnny: Yeah. The guaranteed monthly rent would be about 70% of what we collect. So $2,100 would probably be about the right range.

Dan: Okay.

Johnny: In the revenue share, probably 2,400 with a small vacancy assumption in there. So with the guaranteed, you'll be standard rental by 300 or 400. Then with the revenue share, you'll beat that even by 300 and 400 more.

Dan: What's your backup plan if a zoning contingency caused an issue and you could no longer do co-living in this property and you owe me $2,100 a month? So what's your backup plan? Just rent it out for 1,600 to 1,700 and kind of take a loss for the three years is that from your end?

Johnny: Yeah. I mean, we would typically just go to the number of roommates that the city would say this is what we're open to. So if we have six roommates in there and the city's like, "Well, actually, it's five," we would ask one person to relocate. So the rent would go from 3,000 to 2,400, and so we'd still make some money.

Dan: Got it. So I'm looking at $400 or $500 hours a month in rent. If it were the split, maybe it's a little 800 or 900. I'm talking your numbers now, Johnny, because I think it's good for a lot of investors to say, "Okay. Well, I'm buying into this." But how does HomeRoom make money on their end? So is it pretty much that spread on each one? Or do you guys also buy and manage your own inventory? Or is there some combination of that plus application fees that add up?

Johnny: Yeah. I mean, we do. I mean, you get the little tiny bites from application fees and all that stuff. But the main thing is on the guaranteed rent, we make $900 for that property. It runs for 3,000. You get 2,100. If it's fully occupied, we make $900 a month. When you compare that to another property manager and how much they're going to be making monthly, it's like a lot.

Dan: I can see it.

Johnny: Yeah, it's a lot better [?].

Dan: It makes sense.

Johnny: It's a lot better. And then the other one with the revenue share, we like that because our risk goes down, and then we feel like our investor is partnering with us and we think that's good. The thing is if co-living can't work at scale, then neither of the models is great for everybody or anyone long-term. But our thesis and our track record show that it can be.

And then on the split, we'd make 600 a month. That's still substantially more than other property managers make. But there are very few property managers that can take your $700 rental and make it into a $2,400 rental, so that's sort of why there's a premium there.

Dan: Yeah. And technology-wise, just to paint a picture, so you had the Silicon Valley background, you had some game design, you were around people who were designing software. For a lot of the people who are holding rental property, the extent of their software experience is probably going to be like AppFolio and a login.

Johnny: Sure.

Dan: But maybe you could describe kind of the technology advantage that you have in managing this co-living situation compared to somebody who is just going to go out and start running some ads there. What's the difference? What's the edge? I know you guys have invested in that, so I'm curious if you can kind of...

Johnny: Yeah. That's a big one. And I think it's a mixture of technology and outsourcing. And I think a lot of property managers already kind of going down this path quite a bit. But our leasing team has been fully remote since 2019, like before the pandemic. So part of it is we make getting tenants a lot cheaper. So we get 3D virtual tours of all properties. We do online leasing calls where we, actually, will do a virtual tour of the property. And then they'll sign the lease, pay online.

And we actually have a team in Venezuela, who does a lot of the back and forth with candidates about the property. And then we have a team in the Philippines that will kind of close the deal. And so we have two US-based leasing agents. And that's probably all we'll have for the next couple of years because most that are left is actually being done by the technology and their process and then our overseas teams.

And we use a similar approach to that with our tenant management in which everything is HomeRoom app-based. Everything they need to do to work with us is through the homeroom app. They can communicate through a single point of contact there. Maintenance issues route through our app. So it's just kind of bits and pieces from best practices kind of centralized into our kind of tenant-facing technology.

Dan: Got it. The tenant, in most cases, is probably not going to physically walk the property when the lease gets signed, right? They're taking this virtually, is that what I'm hearing?

Johnny: A majority of people sign and pay without seeing the property. You can sign and pay, and you can actually see it. We actually have the roommates give the tours. And that's part of the lease arrangement. So we actually have no locally-seen team. And so I think to go fully remote-leasing, five years ago, people would be like, "That's insane. You're going to have evictions. You're going to have all these problems." And we have 80% occupancy, have never had an eviction.

And so I think technology has kind of gotten to the point that there's a new normal in town, and it's virtual leasing. And I think it's faster and better for everyone. And so I think that it's something that will be more widely adopted. It has already kind of really sped over COVID. In 2019, we were one of the few doing that. But now, it's a bit more wide. But we're committed to it, that's all we do. And so I think that has saved us a lot of time and trouble in terms of local teams doing it.

Dan: Yeah, it's funny. As you describe it, I'm thinking, well, it's actually quite obvious. Airbnb does it. You don't see that property until you get there. And then hotels have done it forever. You've never checked out a hotel first. It's like you're kind of going into this temporary situation. Like, what the hell has real estate been waiting for to do some of this?

And then through the pandemic, now, it becomes really obvious. We have people stroking the check, sign in, and they're settling on a property before they've ever even done a walkthrough. Completely virtual. So it did normalize, I think, the situation.

Do you position the current tenants? Is that a value for them? "Hey, I'm going to need you to show the property to these potential new tenants," but the reason we do that is we kind of want people to meet each other a little bit face to face. So it's like a total value ad in a sense, right?

Johnny: Yeah. I think one of the things that we have seen over the last three years and because when we started in 2018, very end of 2018, we did in-person tours. We actually did them. We did it. We actually would meet them with them in the house together, make sure everyone got along. And so every time we make a change, we're like, "Well, this just is the worst idea and we're not going to be able to survive this model," so we made transitions.

And the people that were already customers with the old model where they didn't have to give the tours, there's little uproar, right? And they did not like the transition. But once new tenants came in and that was the default, no one cared. So I think one of the things we found is you can tell your customer anything. As long as you're transparent at the beginning and then you deliver on that, they're fine. So there's a lot more flexibility.

And a lot of crafty landlords, they work with their tenants to book appointments and maybe their current tenant shows the apartment because they're out of state. Like, that stuff is already going on. It's just we've sort of put it on steroids and kind of built up infrastructure around those concepts, so.

Dan: night. So what does scale look like? I mean, what number of units, rooms, bedrooms? What is the benchmark for you that you say, "Okay, we've reached scale at this point?"

Johnny: I think it depends on which market we're talking about. I think there's the international opportunity. It's something that we're really excited about, although that's pretty far in the distance. But ten thousand homes in the United States would be, I think, a meaningful benchmark for us. That puts us at fifty thousand roommates. So I think that's where we're targeting.

Once again, I think this model has a lot of scalability potential. We think the demand is ubiquitous there. It's in Des Moines, Iowa, all these places that people are like it's only in San Francisco. It's definitely in big cities, but it's in small cities too.

Dan: What are the barriers to scaling up? So I mean, you kind of talked about the tenant management, but perhaps it's like you sort of have the acquisition money coming from third-party investors, who are buying in, and that kind of solves for financing and ownership as a challenge. Is it building contractor resources, the ability to actually acquire and set up on the front end? What would be the biggest piece of resistance in your marketplace as you expand?

Johnny: Yeah. The contractor sourcing and vetting is definitely interesting, and it's never easy. It's like you scale to the next level, and it's still hard. So I think that's one of the things you kind of learn in this space is like, don't take that part for granted.

I do think, for us, the biggest tipping point, and this is sort of what we're betting on and we aren't going to know this for a number of years, is that at some point, with enough mass, a company like HomeRoom, or hopefully, HomeRoom, will become the place people go to find roommates. That's when the transition and that's what would really enable us to acquire tenants at a lot higher velocity with a lot less effort. And that's when HomeRoom, I think, can scale really rapidly.

And that's sort of it's just the flywheel is spinning and the word of mouth and said, "I'm not going to go to Craigslist to find the roommate. I'm not going to go to Facebook Marketplace. I'm going to check out HomeRoom first because I know they have all the best places in town," so.

Dan: God, it makes sense. So as far as getting this company started in the last two or three years, was this done completely out of revenue? Was it done out of pocket? Or did you guys bring on venture capital to get this thing fired up?

Johnny: Yeah. I mean, I emptied my retirement account. Don't do that if anyone's listening. Don't do that bad idea. I just believed so much, and I was extended in real estate already, my capital. So it was most, I started at the first year was pretty much my money. And the second year was actually we started to get investors involved, so.

Dan: Okay, all right.

Johnny: Yeah.

Dan: Is that how you would recommend somebody else start up a company? Same kind of a deal or what?

Johnny: Probably.

Dan: What would be the best course of action?

Johnny: I think it depends on how experienced you are. If you know how to start a company, if you know what you're doing, I think using other people's money is fine. To me, I'm willing to take money when I think it's a good investment for other people. I don't really want to raise money from angels or friends and family. I wouldn't make this bet. So I want to make the first bet and the biggest bet. And then if pieces start to come together and the trend is in the right direction, then that's kind of when I'm open to adding other money to it.

Dan: Got it. Makes sense. Yeah, I wonder. No one ever comes on the podcast and says, "Yeah, I really do it at about ten million," Them, idiots at the VC firm, and, "I had no clue what I was doing." They probably failed out, so we're not doing the interviews about how great the business is going. But you hear the stories, right?

Johnny: Sure.

Dan: Where so-and-so burned through all this cash, I've just never met that person. I find I'm kind of like you where I'm conservative. I don't want to take anyone's money. I like having my own money at risk. And I know [crosstalk] it holds me back and limits me on some levels, probably from much larger deals.

Johnny: Sure.

Dan: But at the end of the day, I don't know, it's just a little bit of a different risk reward kind of a thing for me. I've been blessed position and we have a profitable company that revenue pays for our innovation and attack and our continued marketing and growth at this point. But we've also been at it for fifteen, sixteen years, something like that.

Johnny: Sure. Yeah. And I respect the heck out of that stuff. And I think, initially, out of the first year, that was our plan. And then the co-living, there started to be rumblings in the competitive landscape and I was like, mm. And so that's when I think getting additional capital may be like the best move for you but also may have the upside for VCs.

It's still not my favorite. It's still not my preferred route. But if what you're doing, you have a chance to win the whole market if you can go fast enough, the math makes a lot of sense for kind of everybody. If you win. If you fail, then everyone loses all their money. But it can go back and it can be a good idea.

Personally, I think if I had a choice, I might go your route. I just think that the co-living ecosystem is evolving very quickly, and we have to kind of put steroids into the engine. And it always makes me uncomfortable every day.

Dan: Nice, nice. I'll get to the wrap-up here in a second. I know we're burning the clock here, but what are the biggest places where the capital gets invested in a company like yours? It's not in the houses. Is it in technology developers? Who or where does that capital get allocated?

Johnny: Yeah. The first log of capital actually came from me because I spent the first two hundred thousand essentially just was investing in getting these. I would buy about all the furniture. I guaranteed all the rents. We paid out deposits to all the owners. It was sort of us experimenting with the concept to see if this could be a solution that could get bigger.

The next group of capital was kind of to bring in the early founding team which is high-level, young super innovative folks that are kind of leading the team. And you generally have to hire them just a little bit ahead of when the revenue can support it because them, in the seats for six months, get you like two years ahead in terms of your innovation timeline. And then revenue starts catching up. And so that's where most of it went. It was the initial experimentation phase, and then the other piece was kind of building the team.

We're building the tech, but the process is usually when you want to build tech it, you want to go manual. Then you want to streamline the process, probably send it overseas, and then develop a more fine-tuned technology option. If you try to go tech first before you kind of done the other two, it can get a little tricky and you can burn a little bit more money than you need to. So we're sort of have invested in getting to that phase two of most of the stuff and bringing on the technology. Additional tech work is happening right now, so.

Dan: Nice. Book recommendations, one or two? I'm going to say, not necessarily have to be real estate.

Johnny: Sure.

Dan: It could be business, startup, whatever comes to mind that you would recommend.

Johnny: Yeah, The Hard Thing About Hard Things. It's by Andreessen. He's a former start-up guy, Andreessen Horowitz. Sounds like you've read it before?

Dan: I have, yeah. Three years ago when it came out.

Johnny: Yeah, yeah. I read that book and I was like, I'm never starting a company.

Dan: Here you are [?].

Johnny: Yeah. But I think in a way, there's the glossy kind of positive like, "We can all do this." I like Gary V. in some ways. He always says, "Not everyone can do this." And I think those are good things. I think those reality checks like maybe they're not the power of positive thinking kind of things. But if you're going to get punched in the face repeatedly for years, it's probably good that someone's like, "Okay. Are you sure you want to do this because you're going to get punched in the face for years?" Versus just kind of like, "Man, this is going to be great," right?

Dan: Yeah, yeah.

Johnny: It certainly hasn't been great. You said fifteen years, I'm sure you've had punches in the face, [crosstalk] a lot of them.

Dan: Yeah, a lot of dark nights, and yeah.

Johnny: Sure, sure.

Dan: Yeah. We've been at quite a few junctures there, you know?

Johnny: Yeah, yeah. Definitely, I'm looking at bankrupt. I was like, "I'm going to probably be personally bankrupt." This is a year and a half ago, but yeah, it's super hard. So I am a huge fan of people that'll give you the realistic, maybe not super fun, good-feeling truth, and I think that book does an awesome job.

Dan: Nice, nice.

Johnny: Yeah.

Dan: So let's go to the crown jewel of wisdom. You're just getting out of college, going back, bank account starting at zero, what would you tell yourself? How would you get started again?

Johnny Yeah. I mean, I had such a good time living in Silicon Valley. And I learned so much from working at all those companies, so it's hard to change the path there. But I do think when you're twenty-two and if you have a job where you're making W2 income, moving to a place that has appreciation potential, like Austin, Texas or maybe today, it's Boise or Raleigh or something, and buying a house every year and house hacking it, you're going to be a millionaire in five to ten years doing that.

So I think anyone that's like, "I want to get in real estate," it's like, well, do that because you get a landlord up close. Then after that, you get to learn how to remote landlord, maybe, a little better. And so I think it's like as good of experiences you can get.

The other thing I would say is advisors in our business, there are just crucial junctions in which we've gotten advisors, and not like, maybe, a coach or a career coach or anything. But we do pay some of our advisors. But advisors have just jumped us through problems, again and again, getting great advisors, pitching them on what you're doing and why you're passionate about why you think it's better than what other people are doing.

You have to pitch advisors. You have to sell them the company, and they have to believe in what you're doing because advisors can pretty much advise anyone. And so a lot of them can do that. So you have to show them why when they advise you, they will be a point of pride like, "I helped that company." And everyone's like, "Oh, that's cool." If you just imagine being an advisor for early Airbnb and how cool that would be to tell people. And so you have to kind of give them that dream of being kind of helping you on a really cool journey.

So I would definitely say, try to find great advisors that have specific skills and experience that relate to your biggest weakness and pain point. And that's just going to catapult you through some of those early challenges that you have.

Dan: Nice, good stuff. So if anyone wants to get some more information about HomeRoom or you, Johnny Wolff, where should they go?

Johnny: Yeah, livehomeroom.com. We have an invest page. We have a roommate page. Looking for a room? We're here for you if you're in Dallas, Austin, or Kansas City, or soon to be San Antonio. You can email me at Johnny@livehomeroom.com. I get random emails from co-living founders all the time, and I'm happy to respond to that. Actually, I have one in my inbox I need to get back to. Just hit me up.

But yeah, I think one of the things that we talked about in our real estate investor in-house team meetings is that prices have gotten to such a high frothy level. We don't see a bubble. We see long-term appreciation continuing for years due to inventory limitations. But I think the creative real estate strategy is going to be more important than ever.

Whereas, just a standard single-family rental with 10% cash on cash that is in a C+

neighborhood, those are becoming fewer and fewer and fewer. And so the people that are still doing pretty good are people who are innovating and doing co-living or short-term rentals or in your case, you guys, you find properties that are of great value. So I think the that it's becoming a bigger and bigger necessity to do that at these prices.

Dan: Nice. All right, cool. We're at the top of our time together. I appreciate you blocking out the distractions having the convo. I got a couple pages of notes, had a good time, a lot of good stuff here, and am excited by what you're doing, Johnny. Thank you for coming on the show.

Johnny: Thanks, Dan. Really, really great to be here, man. Thanks for having me.

Dan: So are you interested in doing deals with no money down? You know, creative financing? It sounds like a good idea, right? Then you might consider diving deeper into the mortgage note business.

The mortgage note business is the creative financing strategy in real estate. First, negotiate, no money down deals with sellers. Then, find a buyer willing and able to put some money down and continue making payments until the deal is paid off with the profit for you in between. And one of the things with creative financing is that you can sell properties from much higher prices using creative financing. So here's an example.

I bought a package deal a few years ago, and as part of the package, I think there were five houses that I really wanted because they were in the right area and there was a sixth house for $20,000, not in the right area. That house that I had to buy for $20,000 is part of the package. It was worth about $20,000. And I tried selling the house on the market for $20,000, plus or minus, leaving the room for the commission, but to no avail. The house did not sell.

So I removed the listing, and I wrote a Craigslist ad offering that same house for $45,000. And this time, I added creative financing. So the deal sold for a price of $45,000 with $8,500 down and $443 per month for ten years. So the deal was off my plate, collecting payments. Now, if the deal runs all the way through the ten years, I'll end up with a total of $61,660 on a deal I couldn't sell that I had to buy for $20,000, which amounts to a profit of $41,660. Not a bad deal on a deal that I couldn't even sell to break even. Right?

So what's the best way to learn about creative financing, no money down deals, and the mortgage note business? Well, you're in luck. My friend. Brian Lockner is hosting a full-day virtual workshop in a few weeks on exactly that topic. And normally, this costs $97 to attend, but as an REI Diamonds Show listener, you can attend free when you register at reinoteschool.com.

This class is a full day of content, tons of examples of real deals, and of course, many of these deals are the crowd favorites, no money down and extracting a nice chunk of cash upfront, followed by years of additional payments. So go check the schedule and sign up at reinoteschool.com.

And thank you for tuning in to this episode of the REI Diamonds Show. Remember to review and subscribe on your podcasting app. Just search REI Diamonds and click subscribe. You can also do that on YouTube where the videos are posted. Interested in receiving the weekly big idea email where I provide the most valuable jewel of wisdom that I discovered during the recording of the most recent episode? You can sign up at reidiamonds.com. And at that site, you can also access the 194 episode archive categorized by tags. Again, that is reidiamonds.com.

So in 2020 my house-flipping business, Diamond Equity Investments bought and sold two hundred and eighty-three houses, and we've done one hundred and seventy-seven so far this year. Well, mostly houses. A few were actually apartment building deals. And we currently have another one hundred and sixty-nine more in our inventory. So I share that to share the three following ways that you and I can do business.

Number one, are you interested in having access to the best real estate deals in your market? In other words, access the deals that you can buy at loan-up prices to actually profit after renovating and then reselling. If so, go now to accessrealestatedeals.com.

Number two, accredited investors seeking double-digit returns can sign up to receive private mortgage investment opportunity emails at fundrehabdeals.com. That would be investing in our Diamond Equity Investments deals only.

And number three, finally, I am always buying houses that I can flip and occupied apartment buildings with below-market rents. So if you have a deal that fits that description in either Atlanta, Chicago, Philadelphia, or the Phoenix, Arizona region, please send me an email with the details.

We are at the conclusion, my friend. Next up, we have Camilla Jeffs joining us to discuss the selection process for investing in one hundred unit plus multifamily apartment complexes. I'll catch you and Camilla on the next show.

Voiceover: Thank you for listening to this episode of the REI Diamonds Show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www.reidiamonds.com.

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