Daniel Breslin: Welcome to The REI Diamonds Show with Dan Breslin, your source for real estate investment, Jewels of Wisdom.

Welcome to the REI Diamond Show. I'm your host, Dan Breslin, and this is episode 207 on Nashville Tennessee Real Estate Development with HBG Capital Founder, Brandon Cobb. 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 into business of real estate. Today's guest, Nashville Tennessee Real Estate Investor, Brandon Cobb, is the founder of HBG Capital. He's also a licensed and bonded general contractor in Tennessee, managing more than $10 million of new development each year. Investing in Nashville Tennessee Real Estate is like most of the US at the time of this recording, super low inventory combined with insanely inflationary environment. There's also a housing shortage, which has created profitable conditions for residential real estate developers who are capable of building with scarce and expensive building materials and labor, not an easy task.

In today's episode, Brandon and I discussed this situation and the system he's developed to actually build profitably. Shall we begin? All right. Welcome to the REI Diamond show, Brandon. How you doing today?

Brandon Cobb: I'm good. I appreciate you having me on. It's good to see you.

Dan: Yeah, for sure. A couple of things I like to start off with first is a location stamp because we have people in different markets from all around the country. I think the context of specific markets, of course, it's cool if you're sitting in Tahiti right now and you say, "Yeah, I'm on vacation, sipping my ties out, whatever the umbrella drinks," but more the context of where people are coming from and their specific markets around the country. I think it's interesting on the show to be able to kind of hear the person from this market, this market, this market, and they bring a different strategy and a different thought process and maybe some of the nuances of their market that I find interesting personally and I assume listeners do. So whereabouts are you operating from? Maybe even grew up, Brandon.

Brandon: Yeah. I grew up in Memphis, Tennessee, originally born in Panama City, Florida. I moved to Memphis. I knew I had to get out of there, went to school in Knoxville, Tennessee. I joked that I was probably there for the worst four years of UT football history ever, but ended up moving to Nashville about seven years ago. That's where I've been ever since, and I don't see myself moving anytime soon.

Dan: Let's stay on that a moment. So Nashville Market versus Memphis versus Knoxville, I've driven through Tennessee, I think, on my way to Florida, but never spent any time in any of the cities. I had another guest. I can't recall her name on the show and she does these Airbnb vacation rentals in the mountains in Tennessee. I thought, "Wow, that sounds like a really cool place to visit." It's like on this list somewhere that may or may not ever occur. So what's the vibe, what's the feel, and why is it that Nashville is so exciting for you to live now?

Brandon: Yeah, so I could probably speak to Nashville more than I can in the other markets. I know Memphis is a very heavy rental market. Over there, you can still scoop up properties for pretty cheap, but you got to be really careful because your tenant base is if you don't have a good system to processes for vetting tenants, you will get hosed on that. Knoxville, you're probably referring to Gatlinburg and Pigeon Forge, tons of cabins going up Airbnb, right? COVID kind of blew that area up. Everybody wants to go on a vacation, but they're scared of COVID or there's a lockdown. So those areas where you can kind of get the whole glamping experience or cabin experience blew up, that area's phenomenal. The Smoky Mountains are obviously one of the best places to go and hike, especially during the fall when the leaves change. A little tip for everybody, right? If you have not been in the Smoky during the fall, it's great.

Nashville's probably the only city that has gosh, 30, 40 cranes downtown. So you can just look if you just had a picture of three cities, you be able to identify Nashville from those three because it's got a ton of cranes. Nashville's just exponential growth. I think all the national builders are now officially here. They set up shop in the building. That mean, you've got these ginormous developments that are being announced every single year. They just announced one. It was like a $2 billion development over in the Bordeaux area, which is your first development where you're going to have heavy commercial skyscrapers that are kind of outside the downtown core. If you look at Nashville, you get the Cumberland River that kind of rolls through it, and that's sort of your barrier to all these heavy, deep skyline commercial buildings. Well, now, it's starting to get outside of that and it's across the river now. So it's very interesting, and you're going to start to see that area really kind of explode. So Nashville's just a hot, hot, hot housing market.

Dan: Nice. Yeah. It's interesting. One of my own personal when I'm buying properties to where I put my savings to work, I like to find gentrification tracks in places where the values have this natural boundary pressure happening. So if I go into the city of Philadelphia, there's two rivers there that kind of create a V and so down at the bottom of the V there is south Philadelphia and that's been an area that's still in transition. There's a lot of rental market, still some high crime, the further down south you go, but that center city is between the two rivers there. And so, it creates this natural boundary where the same kind of thing happened and most of the skyscrapers are going to be downtown in Philadelphia on one side of the river there. And then with University of Penn, we started to see some of that stuff kind of go and it feels like for me, Brandon, there was a time in 2014, 2015, 2016 kind of era where it felt like you had to buy in those areas in order to get appreciation, and then COVID hit and appreciation occurred in every segment of the market everywhere that we could see.

So it's interesting to hear that Nashville also contains that same natural barrier and we found the same thing in the Chicago market with Lake Michigan and the river kind of a situation the same way. So it's interesting to hear that other cities developed the same way around those water transportation areas early on, and here they are kind of expanding beyond that. So that's pretty cool. While we're on the origination piece of the story here, Brandon, could we also maybe talk about how you got started in real estate and a quick snapshot of what your business looks like today?

Brandon: Yeah. So similar background to you is we got started wholesaling and flipping houses and we got started, let's see, I had a job, I was working in medical device sales and one day got sat down and the Friday had just left this surgeon's surgery and was excited thought I was going to get him on board, and then decided to kind of meet up with my boss, met at the Starbucks and I got fired.

Dan: Wow.

Brandon: It was a blessing that the date that's ever happened to me, it was a total shock, but kind of set out on this journey. I had whole different business ventures that I was trying to do and real estate was the first one that took off. I started putting up, we buy houses signs on telephone poles kind of call and it was a foreclosure. We bought it for 90 grand. We put like 10 grand into it, sold it for 130, and we literally just bumped all the profit back into it in the form of marketing. I joke people that when we were first starting out, I've ever seen the Batman movie where the Joker slides down on the big pile of money and then lights it on fire, it's like what we were doing in marketing dollars. And so, all these deals kind of started to pour in and I had the sales background for medical sales that really gave us a big advantage and we just started closing a lot of deals. And so, I think the first deal we ever did was a flip the second two or like a wholesale. The third was a flip. The fourth was a new construction project, which was horrible. I was the guy managing it and building it, and I would never recommend someone do that. But what we learned and the failures from that project, which we did succeed, we built it, we sold it, and made a lot of money, I think we lost $40,000 on that first new bill project. That was what really catapulted our success. So we jumped in and did all this stuff and figured out what worked and what didn't started. Wholesaling kind of graduated up into doing more house flipping invested in masterminds coaching. I'm a big advocate of investing in yourself. So it started paying for all these coaching forces and really just kept dumping the profits back in business. The first two years, I didn't even take partly any profit. I think I paid myself like $30,000 a year. I mean something I could just barely scrape by on.

Really, two, three years ago, we started to fill the squeeze with the house flipping market. There were a lot of people getting into it. Homes had appreciated quite a bit, but the margins were getting slimmer. So instead of flipping a $280,000 on our house and making 40, $50,000, we're having to flip a $354,000 house and make like 30 or $40,000. I've run profits based on the retail price is the home. I want to be 20, 25% of gross. So that really can concern me when you're getting into like 8% margins flipping these homes. And it was by happen chance one day where we've probably done seven or eight new construction projects sort of by accident where we show up and the house is like halfway burned down or a tornado hit it. And we're like, "Well, we can buy it for less than what the land's worth. Let's give this thing a shot." I got a bunch of black stuff that's been burnt. Let's just cut out all the black and reframe on top of it and get a structural engineer to come out. We noticed that we were putting these homes faster than we were flipping some of them. One of the flips took like seven months and we built this house around the corner at six, and we're like, "Wait a minute. We're making 30, $40,000 on this $350,000 flip when we're making six figures on this build, and we did it in less time. Hang on one second. There's something here," and it was a more desirable product.

So at one point, we pretty much just topped the entire marketing department and sales team and said, "We're not doing wholesaling[?] flipping anymore. We're just going to go straight into new construction." When we did that to us, it was like a blue ocean because we were vertically integrated. We had this need to build out the acquisition arm, then we had contractor problems. So we built the construction company up and then we grew that and then we had capital problems, so we started HGB capital. And when we had everything vertically integrated and we were moving over to this new construction model, oh my, God, all the problems that we were having or the properties just disappeared. We like quadrupled the business. I mean, it was crazy and it didn't take that much more overhead. In fact, our over went down because we kind of shut off the marketing department and just pivoted to a self-generation model with our sales reps, and things really took off from that point. That's what we do now. We focus on single-family, new construction in middle Tennessee, and we target first-time home buyers. We like that product because affordable housing is a touchy topic and there's just not much of it, not to be confused with low income or section eight housing. We're targeting first-time home buyers that want an affordable product to live in.

Dan: So I have three things here that I'm going to touch on here. The first is the market itself. So I look at Nashville, Tennessee. I look at a lot of markets around the country. The numbers fascinate me. They mean more now, I guess I'm 41 years old and numbers were just so outrageously large to me. When I got in the business, I remember making $6,000 on my first wholesale assignment and I'm like tap dancing out to settlement. I couldn't believe my luck. The sun was shining brighter. It was just the greatest day of my life. I wasn't setting a world on fire in life before that I was 25, 26 years old, and was in a bind in life. But anyway, the bigger the numbers, the more I pay attention to numbers at first, Brandon, when I'm looking at large numbers, I would feel comfortable. I probably still feel comfortable in certain instances today, like in the first-time home buyer product 253, 350 ARV, these are numbers I feel safe with, I'm comfortable with that. if I start penciling a deal, let's say on this $2 million lot that I'm looking at with a $42 million new construction build for about 240 units out here in Illinois, I look at it, the numbers kind of make sense, but I'm honestly scared of the big numbers and I'm overwhelmed, then I set the project down and I say, "No, let me just stay back where I'm comfortable a little bit."

But one of the things I was going to touch on just a bit was the Nashville population of about 600, 700,000. Does that sound about right still now?

Brandon: In the day in the Davidson County Core. Yeah.

Dan: In the Metro area?

Brandon: Yeah. You're taking into count all the tertiary markets, it's about 2 million.

Dan: Okay. So 2 million is the right number there. And as I hear you talk about the inventory tightening up and I compare a lot of them in my framework, it's Atlanta, it's Chicago, and Philadelphia. Those are the three markets that I'm in and I've watched these three markets behave differently. Atlanta being what I would call "Younger market," meaning it started to come into its own. The downtown core is going to have less skyscraper buildings than a Philadelphia or Chicago representative of the age of large-scale development that occurred. So some of what you were talking about in that Nashville where the bigger $2 billion developments are happening now, I would guess that wasn't going to happen at that same level in the early '80s when the savings and loan bubble was kind of the Mike Milken era as the bubble was.

Nashville probably wasn't building up at the same level that Chicago and Philadelphia was. So to me, it's like a younger market kind of like Atlanta was. Yes, there was development. Yes, people were living there. They were moving there, but when we get to the current day and we had this tightening of inventory, what I noticed in Philadelphia and Chicago is that we had a tremendous amount of existing dilapidated inventory because we have Philadelphia that was like settled in the 1700 and 1800. I've owned houses that were built in 1800. I can't remember if I still do, I might. And then I had same kind of thing in Chicago. Chicago's about 50 hundred years newer than Philadelphia, but we're still talking 1800 massive development that occurred in the 1800 and 1900 for Chicago. A lot of that inventory was still there and it's still there right now needing to be renovated, and only because we've seen the buoyancy of the market elevate in Philadelphia and Chicago are, is it possible for redevelopment now to occur in these areas that were like left behind? So it's kind of a "Thank, God" situation for these larger cities that had this excess shadow inventory that's like unusable housing that there. It's in a sense like vacant lots that exist in the Atlanta Georgia area, and we don't have to tear down the structures. We can do the renovations.

Now, our renovations in Philly and Chicago are going to be $8,500, $20,000. That's going to be the going, "Oh, we're flipping house in a lower-priced end of the market, that's going to be more of a first time home buyer area worth 250, 300, you're putting a hundred, hundred $20,000 in renovation in there." But Atlanta, you could almost build a new house for $120,000 on a vacant lot and sell that thing for the same price. So we have less of that existing inventory that exists at all in Atlanta, and from hearing you tell the story and looking at some of the population trend, I would guess, and these are indicative of certain markets probably being a better opportunity for the new construction kind. I think new construction is strong in a lot of markets and there's people building new in Philadelphia and Chicago too, but there's almost not even the option of the existing inventory that exists in the younger city that's becoming overpopulated for the inventory that was ever there, to begin with in cities like Atlanta and perhaps Nashville. I'm kind of out on a limb assuming it's that way in Nashville, maybe that's your experience already?

Brandon: I want to make sure that I'm understanding your question. Are you asking about the trends in building and what the supply is looking like currently?

Dan: I think that Nashville tightened up because there's not the level of existing housing inventory because there was not development happening in 1900 to 1950 in Nashville at the same volume that there was happening in Philadelphia and Chicago from 1900 to 1950. I think a lot less houses were built in the area in general, that's what I noticed, and I know for a fact with Atlanta because it's younger city. It's 50 years younger when massive development and population start to come.

Brandon: Yeah.

Dan: So we have tons of rehab products still here to happen in Chicago and Philly. There's a lot of work to be done, but I feel like what you're doing is in Nashville, the work is bring it out of the ground, this is where the opportunity is the market demands it because the other option's not even there. There's not a hundred-year-old housing in Nashville just as far as I can see, right?

Brandon: 100%. No, you're exactly right. I mean, Nashville really didn't start taking off until like 2011, 2012, you didn't see any super heavy development. It was a small city. Parts of like Franklin, one of the hottest cities, Williamson County, best schools in Tennessee, oh my, God, it used to be all farmland. And now, oh my goodness, they're trying to just throw up homes everywhere. So you had lot of rural areas that just are all of a sudden, you're seeing these big, huge developments and these national builders have come the past few years to lay up shop. Now, what's interesting about Nashville is you've got like this core, you got this four 40 loop that kind of goes around downtown, and that's really like a hotspot where all the millennials want to live, the young professionals that no have money, no family, yet disposable income, and it used to be really bad. You didn't go down there at night. And so, you had all these old dilapidated houses. I think I might have looked at two houses and I've looked at God knows how many houses were built before 1900 Nashville. I think I remember a cabin-style one like 99 Antioch Tennessee.

So, yeah. We definitely did not have the development that all those other cities had back in the day. So now, you do have a lot of dilapidated home still. I mean, there's still a ton of opportunity there. We felt the squeeze where a lot of people were moving into that market and we saw the number of appointments that we had to go on increase the number of offers we had to make increase significantly. We were just kind of getting priced out. I call it "Stupid money." People buying things based on just the appreciation play when we were trying to pay equity going into it. And so, that's really what kind of moved this into this new construction thing. There's a really good book, what's it called? Am I being Too Subtle? by Sam Zell.

Dan: Samuel Zell.

Brandon: Yeah, really good book. He talked about a great indicator for when it was time to go into new construction for commercial buildings what's the replacement cost? What can I build this commercial building? Can I buy it for less than I can build it? Great, then that's what I'm going to do. I'm going to buy existing one. I build it for less than I have to acquire it now, well, I'm going to just do it. It's a simple thing, but you don't really think about it. Right now, in single-family space, holy, it is so much cheaper to build and there's a bunch of problems with supply chain, but still, with rising construction costs is still way cheaper to build than it is to buy something existing. That's all we're doing is we're just following the blue ocean. So we'll be in this space until we feel like we're getting squeezed out and we're not getting those 25% margins on our retail price.

Dan: For those listeners who may not have read, what was it? Blue oceans? Would you mind defining that, so that term means something there?

Brandon: Yeah. There's a book that was written got in early 2000. It's definitely not a new concept, but Russell Brunson's kind of come back and popularized it. It's basically when you have a red ocean, there's a bunch of blood in the water because everyone's slashing each other, trying to compete for business. Hence, the water's red. So blue ocean would be an area where there's not as much competition and you got a little bit more breathing room and your margins are there and you're like, "Wow, okay. This is a lot more easy to do business over here than it is in those waters over here. We're going to stick to the blue ocean."

Dan: Yeah. It's an ocean. It's huge.

Brandon: Yeah.

Dan: That's the visual, guys. Cool. The other thing I want to circle back on is we lose $40,000 on a new construction flip. How did that feel? Tell me about before you put the for sale sign out front of there, did you know you were going to lose money? Were you losing sleep at night? Were you pulling your hair out? What was some of the frustration there? Because I imagine people have dealt with that even on a house flip and maybe they're thinking it's going to be much worse on new construction, but I want you to touch on that moment of pain there if there was any before we get into kind of the solution and the blue ocean of where you're at now with development.

Brandon: Yeah. It's so funny. We're animals. We react way better to lose than we do any kind of gain. Right now, I have the cleanest books you will see. And the reason I have the cleanest books you'll ever see is because that new construction project, I was not keeping up with bookkeeping. I took pictures of whatever receipts I could and put them in my iPhone album, but to reconcile everything and actually figure out how much money we made a lot, I had to go through like 77 pages of credit card statements and figure out which expense went where, and it was manual too, man. I mean, I literally printed out. I think I was buying a lot of the materials on my credit cards and I had like seven or eight credit cards and I had to print out 12 months' worth of statements for all of them and do it. It took like two weeks of several hours a day of sorting through stuff. It was an absolute nightmare. I do not wish it upon my first enemy and to do all that work and then find out where we're going to lose about 40 grand on this new construction build that we had spent so much time and effort on. It was a classic situation where I hit the wall. I realized how much a young, ambitious, motivated man-boy work. I was answering all the phones. I was the project manager. I was in charge of all the marketing. I was in charge of paying all the contract. I was wearing all the hats and I was managing quite even a lot. I think I was mentioning two flips and a new build, plus going on all the appointments, plus managing the market, it was a lot.

Really, when we had done the dumb, dumb thing of putting it under contract before it was built because we're excited. We're like, "Wow, we got asking price before it was built." Now, we had these homeowners showing up every day, like nitpicking everything and we had given them a date, and when we didn't hit that day, I mean, we were like two and a half months behind schedule, and that's when thing and when I felt to squeeze because if I tell somebody I'm going to do something, I have a lot of cognitive dissonance that occurs if I'm not delivering on that, I just get stressed out. Then I was getting stressed out because we didn't deliver on what we told them. So then it was like overdrive. So literally, I had to stop answering phones. I had to stop going on appointments, and I had to just microfocus on finishing this house. So that's what he did. We had to like cut off one leg in order to save an arm.

So we finally ended up building it and I realized that at that point, I will never, ever again do something that I'm not qualified to do. I pulled it off and to this day, I can build houses. I can manage flips. I can do it, but I'm not the best. And that's why I'm a big believer in who not how, "Go find who can do the job" that you're asking them to do and better yet who can teach you how to do it better, and that's a big role of thumb that we use these days is we do not hire anybody that can teach us how to perform the role better than what our current systems and processes deliver. I kind of went off on a tangent, but kind of bring it back home. That feeling of losing $40,000, it was bad. It sucked but naturally turned negatives into a positive. That's just how my brain worked. I realized I'm like, "Hey, this is just a tuition payment." It didn't put me in a terrible situation. I had some savings from medical device sales days and I done a very good job of living under my means for years and saving money. But I was like, I just spent 40 grand to learn how to build a house, and I can say was pretty strong conviction that had we not gone through those failures, we would not be in the situation that we are today.

Dan: Do you remember how you felt when you signed the settlement statement at closing for that one, Brandon?

Brandon: Yeah, I felt relieved. Honestly, I was like, "Thanks, God, this is fun. Holy smart." It wasn't until later that I figured out that we lost 40 grand [crosstalk] [inaudible] expenses. I didn't it at that time. I think we actually received like a hundred grand on settlement state and I was like, "Woo-hoo!" But then you do all the math and realize, "Wait a minute, I was 140 over budget or [inaudible]" And you're like, "Oh, wait a minute." So I do remember I was very relieved at the closing table when we sold that thing.

Dan: Yeah. We lost 100 and something thousand on one deal, same year we lost 150,000 on another deal. The context of putting that in a mental box of tuition payment is good and making sure to learn from the mistakes, for us, we got jammed up on a court case, so we now understand what the risk of litigation is when we're flipping a house or selling a house. So if you're in some kind of argument with real estate agents or whatever the case is, and litigation starts, you may not be able to actually sell that house or refinance that house, land property, multi-family whatever until that lawsuit is settled. So it's not even the settlement amount of the lawsuit that would be calculated, but the fact that the attorney who understands, they're kind of putting the brakes on your project kind of has you by the ball. So that was one lesson we learned from one of the big flips.

Another one was the negative power of a busy street. So we had a really nice house, 420 grand we thought, but it was at the corner so the large side yard border to double yellow, double high four-lane road there at the end, we sold it for like 365, 350, so we were off by 70,000 and we totally botched a renovation and had flood damage and a couple other things pop up on that one. But now, our underwriting style is now better because of that. We understand the risk because we paid for that lesson at a much higher level. And, of course, people in the network and events, "So as well the busy streets going to affect your blah, blah, blah. Yeah, okay. We thought we were getting a good deal on this one." I think a lot of people are going to run into those kind of things along the way, but I really wanted you to dig into that emotion and talk through the loss. I mentioned my loss because I know people are going to have to take a loss if they're flipping property and thank, God, my first loss wasn't until deal number 10, 15, 18, or something like that. Whereas I've watched people have the loss on deal number one, two or three, that's it throughout the game. They're like, "Back to medical device sales and hitting monster.com with my resume."

So the pre-sale development, before you talked about this, I'm thinking before, not in the last month or two, but it was like this mental strategy of mine, "Oh, here's a low-risk way for me to become a real estate developer, I would pre-sell my property." Would you touch on that as an effective or not so effective strategy, and if that's something that you might implement ever again? It sounds like you wouldn't from your story there.

Brandon: It was a great, great thing to do because you could get 100% financing with the banks. What a lot of these developers would do pre-COVID before supply chain issues and just wildly expensive construction costs got out to hand is you build a model home and then you'd pre-sell the whole development, you get a hundred percent financing with the bank if you could bring them purchase and sell agreement. I mean, that's huge not having any of your own money in the deal and just having to cover some of the overhead. That's huge. And then, you had this crazy thing called COVID runaround, which further depressed the supply of homes and just went bunkers. And so, when that happened, I'd say 2020 Q3, Q4, a lot of builders that were either pre-selling homes and locked them in were builders that had locked themselves into a price per square foot contract with homeowners to build their home. They really got hit hard.

We didn't pre-sell a ton of homes because our experience was I thought we can get more, but we did. We tried a few of them, and we're like, "This is great. It saves six weeks on the disposition time and I'm all about limiting market risk." So anytime I can take a timeline of having capital exposed on the market and reduce it, I'm all about that. But what we realized is we were kind of cutting ourselves short because as we kind of got to the end project and the accounting revealed what the true costs were, we're like, "Wow! Construction costs have gone up 10, 15% here, that's a good hit." And so, what we noticed on the homes that we did not pre-sell was the price appreciation of the property was preventing us from taking that construction hit. So it was like, cool. Construction costs are 8% over budget on this project, but the home is selling for 10% more than expected. So we didn't feel to squeeze on those.

So now, we don't pre-sell anything. There's too much volatility with construction costs. The appreciation's too much and it's kind of scary how much homes are appreciating. And so, as a result, we don't pre-sell anything right now, and we don't build for anybody else, too. So we're not locking ourselves into a contract with a homeowner. I don't want to deal with homeowners. I have no motivation to build a home for them. We just build for ourselves. And so, we control everything.

Dan: Yeah. I look back, it has not always been this way. From 2012 to 2016, maybe even 2017, if we built a house on a 350 ARV, we would dance a jig, if we got 345 or 355. In rare unicorn events, we would get a bidding war and it would sell for like 368. Very rare instances would you have a 20, 30 grand above asking price or a five, 10% kind of a bidding war, no matter how nice the property was done. In the past, that did start to change when you got to like 2018, 2019, it did start to tighten up. We noticed inventory start to shrink a little bit in some of the markets. Looking back, I wasn't paying attention to those numbers as it occurred. But then when you get into 2020, 2021, 2022, the method for a buyer who is buying a deal to fix and flip, I think the ones who are smart, who are winning the bids, who we would normally think of like, "Oh, these are foolish money that's getting in. It probably just came out to the real estate seminar, whatever." I know I've learned to read the market this way where I do factor in some portion of the appreciation. Now, for me, I'm not going to do a hundred thousand dollars rehab and buy it at an egregious number. I'm going to factor more risk for more renovation, but in areas like Atlanta, a property might need 20, $25,000 or less in renovation and that's paying contractors because the inventory is new there. Literally, in the three to five months that you own that property, if you're two months doing a construction like there's a chance there's going to be another 10, 15, $20,000 in retail price. I think that a lot of the buyers who are really good at flipping houses, they're paying up on the front end for the house in the asset condition, but they're really familiar with these little areas and micro-markets, which are almost every market in all of the 12 county area or whatever it is for Atlanta right now. They're riding that appreciation up.

I think it's kind of what you described too, where we don't want to pre-sell things. We don't want to lock them in because the market literally is moving so fast recently and who knows how long that's going to continue where 60 days, it's a different story. 60 days worth of construction, we're recording this now, March 2022, and the pricing potentially will be four or 5% different in many markets if we come on the market on like June 15th. That's how fast. I used to pull comps with a 12-month window and timeline, I find myself, now, it's six months to get a true picture of the market. And then I'm even kind of handicapping based on the month of the year that we're in. So right now, if I'm in March, I have to handicap coming through October and November and December because there's this hesitation and unknown with what's going to happen with the market as you go into the wintertime, but now it's January, February, March, and we've always kind of done this seasonally handicapping, but wow, the inventory still hasn't let up, even though the eviction moratoriums, the foreclosures are now being cycled through. We're still not seeing much relief in any of the markets that I track for the inventory. So, yeah. I think we probably agree that pre-sales a great strategy maybe in a flat stable or consistent market where materials have some sort of consistency, but in this inflationary environment, probably not so much.

Brandon: I agree with you 100%. You hit the arrow right on the head.

Dan: All right, cool. So you talk about finding the Who Not How, was that a Gino Wickman book?

Brandon: No, I think it's Dan. Is it Dan Sullivan? It might be Dan Sullivan. Gino Wickman, I think, The Traction.

Dan: Traction. Yeah. Okay. So finding the right people for the team. So you're in medical sales, you're running these flips, you're doing this new construction. I can relate, the listener can relate. We've answered the phones, we've run the contractor, we want to make the entire pie at first. There's going to be a house flip $30,000 profit on the first one. It's a life-changing sum of money. I know, for me, it took a long time before I could mentally let go of maybe my greed or my lack of abundant mentality if you will. I felt like, "Man, I would only find so many of these deals. I kind of wanted to make sure I did the whole thing myself, captured the whole profit." And it took a long time for me to formulate this more collective approach so that my team now exceeds 45 or 50 people, and we're able to do a whole lot more deal flow and each individually make more money than if we were doing it on our own and make more effective deals and take lower risk and just spread the effort so that more people enjoy it. There's more to go around. There's a larger pie and we found the right who's.

When we talk about the new construction and coming from your background in medical sales, what was that transition like? Maybe there was like a challenging first addition to someone on the team. Maybe that was later in the process, but maybe you could kind of go into the critical key hire and peel apart a couple of details on that.

Brandon: Yeah. I'll jump into the critical key hire and kind of what shifted my mindset to make that. I'll kind of tell you some of my mindset before going into it. So I grew up blue-collar. Before moving to Memphis, I lived in Birmingham. My dad was an HVAC trying to get into computer stuff. My mom was a school teacher. So we didn't grow up with a lot of money. I don't have some horrible background to tell you where I came from nothing. I grew up with a lot of love, man, and that's really what got me here. I had a great family, they did the best they could to provide. We moved to Memphis and my dad got a big promotion, so that was nice. We'd be sent to some of these schools, but we grew up with this mentality, and they drilled this in and be like, "Save your money" because that's the blue-collar thing, right? You don't make a lot of money, so save it. So when we went to dinner, we didn't get like appetizers and stuff. We all got one meal. When the iPhone came out, my dad was like, "We'll buy apps. Save your money," even though it was dollar or $2 per app. I mean, I kid you not, [crosstalk] it was drilled into me, It drilled into me to not spend money. He was cheap. He showed me how to change my own oil, change my own brakes, we do a lot of the sweating [inaudible] car. He knew all the ways to save money because that's what he had to do. That's where they came from, and they want what's best for me.

So we're just passing on the wisdom that's worked for them, but that is not bright mentality if you're going to start business, and that's the mentality that I had. It really wasn't until I hit the wall. It was really was that new construction project that pushed me to my limits when I did that new construction project because I was so far out to my comfort zone and stretched out financially, and my credit cards were maxed out that I realized I can't do this alone. There's no way I'm watching the business crumble. We're spending some money on marketing and I'm not able to answer the phones now, I can't go on the appointments, I'm like, "Oh my God. You're just wasting money," which wasn't like a ton of money, especially compared to what our marketing budget grew into eventually, but that hurt. There was a lot of pain right there. I realized I was like, "Dude, we either need to do blueprint on where we need to go and we need to do it fast." So I was like, "I can't do this whole thing again. I can't go through all that again."

And so, it was about happenstance that I was on, I had talked with my aunt in law who was flipping houses up in Philadelphia, I think, somewhere up there or no, like Pennsylvania. I was like, "How did you get into this? What are you doing? I'm kind of starting to do this, I've got some pointers," And I found her on a website for a Mastermind and I was like, "Wait a minute. What the heck? I see you're doing testimonial for this mastermind here. What the heck?" And so, I called her up again and she recommended it and I pitched to my partner at the time, it was like $25,000, I was like, "Oh my, God, this is a lot of freaking money." That's a lot of money to spend. Again, save your mindset. I pitched to my partner and that time, he was in Colorado Springs coming in town to visit his girlfriend who's going school in Murphysboro. He's like, "Dude, there's no way we're spending this amount of money. We could spend it on marketing, we could do this, we could do that."

He goes to the website and he start scrolling through and he looks at testimony, he goes, "Wow." Adam was this big player in Colorado Springs, he's like, "We're joining this." So club[?] is [inaudible] we bid it and we paid it. The first meeting, we're like, "Holy freaking small." They shaved off $20,000 a year on our marketing cost day one[?] because they had negotiated pricing for postcards. That negotiated like a group discount. I was like, "Holy cow." And so, now we had like the blueprint. We're sitting in the room, we're doing the mastermind event, we're up, we're introducing our business, and everyone's there to kind of give us pointers, and they're like, "Dude, you're good at sales. Don't leave that, hire that position last." Always hire the position that you're best at last. Right now, you've got a top-of-the-funnel problem. You're not able to answer the phone. You need to hire a lead [inaudible]. And that's what I did. I was like, "Boom."

If I'm very good at taking other people's advice, I think I'm a pretty humble guy, I try to remove my ego from every decision that I make, and if someone tells me I needed to do something and they've got this big business that I want to want to copy and replicate, I'm like, "Boom! Done." So that's what we did. That was the first hire, and that's how I arrived at that first hire. From that point, after I hired her[?], I was like, "I've got to hire project manager because I'm not doing this again." So we hired a project manager and we had the blueprint because we took the ORP charts from these big boys and literally just slowly started filling all the roles.

Dan: Nice. What was the key in hiring a project manager? This is something you weren't good at, so how did you identify the person for that role?

Brandon: How we do it now or how did I do it back then? Because it's two completely different ways of going [inaudible]

Dan: It's probably more effective to talk about how it's done now.

Brandon: Yeah. So now, we have a whole process. Back then, I was like, "Cool. Your resume says construction. Hang on board, you're hired," we're very fast to hire, slow to fire. Now, it's flip flop, right? Everyone's heard of fast to fire, slow to hire. And so, our hiring process, we're a big EOS fan, but we kind of start from the top one is we use behavioral style interviewing. So when we're interviewing, we're asking questions that want to elicit the skills and experiences that we're looking for. So we don't ask like, "Well, what's your greatest strength? What's your greatest weakness?" I'm hiring for project management role, I might ask, "Only about a time where you had a subcontractor who was slowing down a project, how did you manage that? How did you turn it around? Tell me about a time where you made a decision to fire a subcontractor and bring in somebody new, how did you make that decision? What was the trigger point and how did you find a new contractor to bring in?" Those are the actual skills that I need. So that's what we'll do. We'll use behavioral style interviewing. Again, we're looking for people that can teach us something about our role.

One of my biggest takeaways last year was if you want to hyper grow your organization, you need to hire somebody which was my old way of thinking, and then train them, integrate them into the system, and get them good at the role. No, we don't do that anymore. We hire somebody who can teach us how to make the position better. So when I'm interviewing people and I'm hiring, they can't teach me something about troll[?], then we're not going to hire them. That's one big reason why we do a ride-along and do a mock work day. We'll actually pay him to come to work for a day, two days, three days on the weekend, or whatever we have to and they'll do a ride-along. If it's a superintendent role, my partner's taken them from construction projects and construction project. I mean, he's drilling them on what he would do, where are the gaps. He wants to see if they can notice all the things that are wrong, he'll personally bring them problem projects and see if he can find what the issues are because we need to make sure they can do the job. So those are kind of like high level things that we do. And then, we start off with a phone interview. It's very quick. It's very brief. We're just trying to get a feel for if they pass the smell test, why are you looking for a job? What do you want to get out of it long-term? How much pay do you need? We don't want to get to the end and figure out they're asking for way too much. So just some of the smell, that stuff.

The next step is we are looking for core values. So, for example, one of our core values in our organization is extreme ownership. I'm a big fan of like everybody read Jocko Willink's book, Extreme Ownership. I'll ask them. I'll say, "Hey, tell me about a time where you were working as a group and something went wrong and didn't accomplish something. Whose fault what was it?" I'm wanting to see if they're pointing the finger, blaming other people the problems, or if they're taking ownership from themselves and saying, "Man, things didn't go right. It was a team effort, but ultimately, it was my fault, and here's what I could have done there." So growth is another one of our core values. And so, I'll ask them, "Hey, tell me about the past five books or podcasts that you've listened to." I'm trying to get a feel for, do they have that growth mentality? Because everybody in our organization has our core values and they're always trying to push themselves and get to the next level. I'm very, very interested in making sure that they've got the core values.

Now, once they've got the core values, then we do another interview that's more of a skill assessment. This is where I'm diving in, and I want to make sure that, again, behavioral style interviewing, they can tell me stories that, at least on the surface level, show that they have the experience in the role. Then, if they pass the skill assessment, at that point, now they'll do a ride-along. With the sales position, it's like, "Come on. We're going on appointments. Let's rock and roll." If it's a superintendent role or project manager role, you're my partner, he heads up the whole construction side of things, he's like, "All right, ride along. Here we go. We're going to pay you for a day. We're going to see how you interact to see what you can do." If they pass that, then they're technically qualified candidate. We usually want at least two qualified candidates before we can make a decision. That's the stupid nuts of our whole hiring process.

Dan: Nice. So you got this machine, you're building these new houses, what is your source of funding for these? We touched on 100% financing at pre-sell, and you mentioned that you're not pre-selling in light of inflation. So what does the capital stack look like on your new construction builds at this point, Brandon?

Brandon: Yeah, that's a great question. So we work with a lot of accredited investors. We have a new construction fund. The best hurdle for a developer or builder to grow their business is cash flow. As a builder, if you're building 60, 70, 80, 90, 100 homes a year, and you're having to put

10%, 20% down payment to the bank, plus all the overhead of your project, plus paying the monthly interest payments and everything, plus having to pay for all the overages and everything, you're going to have all your money locked up. You're going to have cash flow problems. You're going to be like, "How the hell do I pay my employees?" And it's going to be very stressful. Now, that was one of the issues we had when we were flipping houses and using all of our own money for everything. When we started this fund, all the problems disappeared because we had a product where investors could make a great return and were secured by real estate that offered all the benefits that real estate has to offer. They don't have to do any of the work of fixing and flipping it or managing tenants. They really like if it was true hands-off passive income. So what we do with that fund is that fund covers the down payment. We do a 12-month interest escrow. So there's no way that note cannot be paid for 12 months. It goes right into the bank's account and they draw from it. We're usually in and out of these builds in eight, nine months, so that's covered.

Then, we had start-up costs. So that fund pays for the start-up costs. So the start-up costs go by the lumber and the foundation. From there, we pretty much don't have any out-of-pocket costs. So the investors are making money. We put them in a position where once the home starts to sell, like 100% of the proceeds flow to them until we get them paid back in the ROI, and then our firm benefits on all the remaining home, so it's a great situation where the credit investors get hands-off passive income. We get to grow as an organization because we don't have cash flow issues and it just lowers the risk for everybody because we were able to do these a lot faster and get it out in eight, nine months.

Dan: So what does the security look like? The timeline for an accredited investor who's going to put money in the minimum investment? And what kind of a return would they expect over that timeline?

Brandon: Yeah. So it depends on a project. Some projects were in and out in 12 months or less. Some are 18 months or less, it just depends. So if it's more like the land's ready to rock and roll, it's 12 months or less because we're just going ground up, "Boom. Here we go." Then, if we're having to do some kind of land development on there, that's usually six to eight months and then 12 months for the construction. So those are usually about 18 months and around.

What I like about the land development side of things is you've got multiple exits. So six to eight months down the road, you develop this land, you call the infrastructure in, you put all the roads in it, you can do an exit strategy now. You could potentially sell that to a big boy who is willing to volume and only make 40, 50 on a house where I'm on six figures on a house where it's not worth my time. If he's going to pay me that, it just makes sense for me to go ahead and sell it to him. I got an exit strategy six months, eight later. At that point, six months to eight months later down the road, I can say, "Hey, what do home prices look like? Are they projected to what I thought they were?" And I can continue doing the vertical on it, or I can be like, "Wow, this is a really, really good deal. I'm going to sell them at pre-sale if I want if it's stabilized," or what happened in Q4 this year, I could sell it to a [inaudible]. That's a whole new buyer that's come out which lowers a lot of these builders' risk because they can buy the whole development from you with one fell swoop and it's nuts. So there's different timelines in what we do but it's usually between 12 and that's depending on the deal.

Dan: What kind of return in security? I mean, we like first position mortgage with one large LLC that is the fund, and how much of a return do they expected?

Brandon: So the way we've got it structured with the fund is the banks in the first position and then all the limited partners are in the second position behind the bank and then our firm would technically be in third position. So that's how the waterfall flows is this home sale [inaudible] makes and no paid off, investors get paid off, and our firm would profit on the back end. As far as returns, I don't know if I'm allowed to like advertise returns or not, but typically, from our past deals, investors have seen healthy double-digit returns.

Dan: Nice. So if the market crashes and the bank takes the project back, the investors are wiped?

Brandon: Yeah. It would depend on where we're at. So if, for example, we build in about a 30% hit, so the home can take a 30% hit and we're still making money. Anything past a 30% decline, then you start looking into, "Okay, investors principle could at that point," or profits that point could get touched. If you're getting further or significantly past 30% at that point, then you're looking at, "Okay, their principal could start to be affected at that point."

Dan: Yeah. Like any of this accredited investor kind of things, there's always the risk of the market of these things, the interest rates are going where they go. So what is the right product right now, in Nashville, Tennessee, to mitigate the risk and be profitable? What is your favorite product to build right now?

Brandon: I like affordable new construction, not to be confused with low income or affordable housing, I'm talking about the first-time homebuyer home. We really want to target 385,000 at less entry level, 1,500 to 1,900 square feet. We like that because it's very easy to build. When you do these cookie-cutter homes in these neighborhoods, it's the same thing over and over again. I love townhouses, it's super easy. You can order all the materials, they're readily available. It's something that's very easy to build. If we can get in and out of the vertical in eight, nine months with a pretty strong run-away, our LTV on a lot of these things is 55% to 65% on a lot of these homes. So we feel very comfortable with the margins. We believe that gives us a really good run-away. If the market does crash and burn, another reason why we're in this asset class is it's the lowest supply, highest demand realistic product there is right now, we cannot find affordable homes to live in, let alone new construction.

So with new construction, it's a lot more desirable than you're fixing flip project or an older home. It is going to be insulated against market volatility because people will tend to push into these more affordable assets when you do have a constriction. When the market collapses or whatever, the need to live doesn't go away, right? It's still there. We're going to find somewhere to live. They just are feeling it in their wallet so what do they do? They move into more affordable living arrangements. That's more affordable housing. So that's where we want to be. We want to be in the asset class that people could live into when there is a recession because that gives insulation that asset classes don't have.

Dan: Nice. What other questions or topics did we not cover but are pertinent for everything that we did talk about so far today?

Brandon: Oh, man. We talked about a lot of stuff. I can't think of anything. I really enjoyed the conversation.

Dan: Yeah, me too. We had touched on a couple of books. I think I wrote down Extreme Ownership by Jocko Willink being one worth checking out. I think we talked about Who Not How. What other books recommendations, maybe you make to people joining your team, or maybe you feel like are really impactful for single-family real estate investors?

Brandon: Oh, that is a great question. Let me think one second. So Raising Capital for Real Estate by Hunter Thompson. I think that being able to raise capital and deploy capital responsibility is the number one skill you need to have if you want to grow your real estate business. That book’s fantastic. Susan Lassiter, Getting the Money, is also a really good book on the same subject. I would highly recommend those two books. Sam Zell's book, Am I Being Too Subtle, and then Building An Elite Organization by Don Wenner if you want a story, biography that's very entertaining. It teaches the skills as they learn them along the way. Those are two phenomenal books. Those will really show you how to build culture in the organization, and Don Wenner's book, Building An Elite Organization, gives you the framework. It's a blend between Jim Collins' book, Good to Great, and Gino Wickman's Traction model EOS, which is another book that I would recommend. We're a big EOS model fan. I think that taking the tidbits out of that book, it's really built for a huge organization. I wouldn't do everything in EOS in Traction but picking some of the core fundamentals of it and applying it. That's definitely huge. I'm highly recommending that book.

Now, if you're just getting started on your journey, from naming all the stuff because it depends on where you're at in your real estate journey, so if you're further along, trying to grow and scale your business, the biggest thing that you can do when you're first starting out, in my opinion, is change your mindset. I'm a big Tony Robbins fan, Awaken The Giant Within, phenomenal book. You really got to train your mindset to be able to handle these things. And so, if you don't have the mindset when those tough times go around when you lose 40 grand on this new build, you spent eight months doing, and you're stressed out. If you don't have that mindset, you're not prepared, then that's going to be a big issue. You're going to cave and you're going to go back to doing whatever day job that you were doing. So, if we had more time, I could think. I've got a whole library I could probably share you, but I think those are some really good starters.

Dan: I know. Maybe, instead of asking that question, I just tell people, "Go ahead, turn the camera around and let's just get a still shot of the library," but I like asking recommendations, and people kind of frame them with, maybe here's the take away One of the things my mentor would always told me is, his example, Dan Kennedy. His example was, you have to learn how to translate things from other industries, other books, and other people's path to progress or path to success. You have to learn how to translate those into your own business. The story that he would always say is like, I think it was bank drive-through windows came first, and one may have been Ray Kroc, it may have been Burger King, one of those fast-food joints looked at that business, the bank drive-through model and said, "Oh, we could do that with food." And they translate that idea into the other thing because I think a lot of times how I used to look at, it was like I didn't want to read a book on some other type of business if it wasn't specifically for, "Here's how to flip houses," but once you learn how to translate the language of ideas from these various places, these books that we read, I think that's one of the things that really made the needle move for me and you kind of touched on that.

So Sam Zell in Am I Being Too Subtle, he's talking about buying multi-family housing in tertiary markets. Well, how does that apply to me if I'm flipping houses? Well, you got to figure that out. There's something that you take away from his story versus just kind of like watching Sam Zell like it's this unbelievable movie on a screen and nothing applies. It's important to figure out how this applies to me and to what I'm doing. So I think that's key to absorbing anything, a podcast, a John Rockefeller story, books we mention here today, our conversation here that we talked about, even if it's not new family, new construction single-family houses that the listener is doing, there are certainly other things we talked about that could be applicable to anyone's current path there, if they're paying attention, right?

Brandon: Yeah. No matter where you're at in your real estate journey, the best investment you still will continue to ever make will be in yourself.

Dan: Absolutely. So my final question, I guess maybe we would have to, but the Crown Jewel of Wisdom, if you could go back to walking out of the office or hanging up the phone when you got fired from the sales job and you could share with yourself one nugget of wisdom, what would that be?

Brandon: Oh, man. It would be the same thing I still continue to do today fit in the rooms with the people that are smarter than you and that are doing the things that you want to do. Now, I'm advocate[?] I pay to be in rooms with guys who were way, way bigger things to me, and eventually, and usually, end up being one of the bigger guys in that room. Years and years later, I'm almost teaching the new guys who were coming into that room, I'm referring to masterminds. At that point, it's like, "Cool." Let me give back thing, but then you got to find the next level. So I've really taken that part. I do a lot of conferences. I do a lot of masterminds. I really spend a lot of time trying to figure out who it is that I'm trying to mimic and basically, find value to them. Then, get the information that I need to take myself to the next level.

Dan: Nice. Love it. Brandon, if anyone wants to get more of Brandon Cobb, or learn more about HBG Capital, where should they go?

Brandon: Yeah, I'm on Facebook. You can type Brandon Cobb. If you're interested in learning how you can participate in passive income from recession-resistant assets, go to hbgcapital.net. It's free educational content. My whole goal is to provide as much value to people as possible. If you want to set up an introductory call and ask some questions or if interested, again, you can go to hbgcapital.net. I'm looking forward to hearing from you guys.

Dan: Cool. Good stuff. Hey, I appreciate you giving us the time-sharing of your wisdom and coming on the show.

Brandon: Hey, I appreciate you having me, man. I really enjoyed the conversation.

Dan: Nice. You and me both.

Low-cost capital is the fuel of any volume real estate investment business. As a real estate investor, I am sure you're well aware of these two facts. First, your business is driven by access to capital or starved from a lack thereof. Two, you make more money when you reduce the cost of said capital, whether you're looking for hard money loans to fix and flip houses, rental portfolio loans, or even a line of credit, lending home offers the most competitive rates in the market currently as low as 6.49%, which is good for fix and flip single-family loans. I pay 10% myself at fundrehabdeals.com to my private investors. So at 6.49%, if you like that interest rate, go to reilineofcredit.com. Even if you're not currently in the market for a loan at this very minute, I encourage you to still go through that 1-minute sign-up process right now so you can get on the email list. That way, once you're ready and you have a deal or a few, their name is Top of Mind. Plus, as a bonus for signing up through reilineofcredit.com, you'll receive a free iPad when you close your first loan, that's reilineofcredit.com.

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So here are three ways that you and I could do business. Number one, if you are interested in having access to the best real estate deals that you can buy, fix and flip for profit, go to accessrealestatedeals.com. Number two, if you are an accredited investor who is seeking double-digit returns, you can sign up to receive my private mortgage investment opportunity emails at fundrehabdeals.com. That is how you join my network of private lenders to potentially fund my projects. Number three, I am looking for more solid business partners that is additional solid business partners. Those that I have are definitely solid in Atlanta, Chicago, Philadelphia, and Phoenix. The role that I am looking to fill is that of our acquisition manager. Our acquisition managers are like the conductor of each deal. We provide the leads, the capital, and a company culture of consistent training, and consistent profitability. In other words, everyone on the team is consistently making money and our acquisition managers earn the largest split of anyone involved in any of our deals.

So if a partnership of this nature sounds exciting to you, please visit careers.diamondequity.com for details and instructions on how to express interest. This is a very exclusive position only to be filled by the right person who is dedicated to deal-making, hungry for a big opportunity, and ready to be a loyal member of the Diamond Equity Investments team. This may be the life-changing opportunity you've been searching for. Skills which would move you to the top of the list include sales background, strong follow-up skills, and a quick proficiency with numbers and negotiation. House flipping experience is a plus, but not exactly necessary. Go to careers.diamondequity.com and maybe I'll catch you on one of my own Internal Diamond

Mastermind calls open only to my inner circle. We are at the conclusion.

Next up, we have Kim Daily joining us to discuss the franchise business model in today's environment. So I'll catch you and Kim next time.

Narrator: 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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