Announcer: Welcome to the REI diamonds show with Dan Breslin, your source for real estate investment, jewels of wisdom.

Dan Breslin: Hi, Jim Fredo. Welcome to the REI Diamond Show. How are you today?

Jim Fredo: I'm doing well. Thank you, thank you for having me, Dan.

Dan: Yeah, for sure. So I'm recording from Chicago here in the middle of summer. Whereabouts are you tuning in?

Jim: Pittsburgh.

Dan: All right.

Jim: Pittsburgh, Pennsylvania.

Dan: Yeah.

Jim: Home of the Steelers.

Dan: Little known fact, I guess I was a Phillies fan, and I got to watch the Phillies beat the Padres.

Jim: The pirates.

Dan: Pirates, there you go.

Jim: Yeah. They're easy to forget, they don't do very well, so.

Dan: Yeah, yeah, and I was rooting for Philly because that was my home team when I lived for about a year in and around the Pittsburgh area and I was like 18 or 19. So I was like, I gotta a little bit of the geographic flavor of it, not a whole lot of knowledge, not much real estate knowledge but that's my Pittsburgh history for us here.

Jim: I've always been a Steelers fan, but I grew up in Baltimore, so I'm an Orioles fan and they've let me down till this year. They're doing quite well, so

Dan: Nice.

Jim: I'm a baseball fan, but it's nice to have your home team doing well.

Dan: Yeah, yeah, true enough. So I was doing some research and I thought we would start at your move to California to work in the music industry, Jim.

Jim: Oh, okay, way back, okay. Okay, I got my MBA from Drexel and thought I'd go out there. This is before I knew what market research was apparently and didn't realize that the music industry doesn't care about your degrees and you know, it's who, you know. And it was fun but didn't pay the bills. And at some point, I transitioned to high-tech. I used to do some coding in my bedroom back in the day. And I went more for Semantic. Had a great run. Politics caught up, BP took the product to the east coast and then I'm like, "All right never again." And I was like, "Okay, real estate's the way to build a portfolio that I can rely on. It's fine and I could pay for what I do and always have that passive income." And I started heading into real estate from there.

Dan: Okay. So on the music thing before we move on. Was there a band or was there a genre? There must have been because this is more of the dream, right? So it's like why I'm leaning in with this listeners don't know that I have a couple songs I've helped to write, helped to produce, and put some artists together who never really made it very far. One of them died last year. It's kind of like a hip-hop genre thing. So it's always been a little bit of the passion project for me over the years and we threw, you know, promoted a bunch of shows, and the thing about hip hop artists is a lot of the ones we work with ended up getting murdered sadly. And I'm like, "Yeah, I don't know if I want to be hanging around these studios very long late at night where this kind of thing could happen. So it's a little bit of a personal interest for me.

Jim: Well, it's that's actually very funny. It must have been a lot of research or it's just fortuitous. So I did have a group. It was hip-hop group. They didn't make it very far, you know, one of the underground groups. They had some personal connections to a very large group at the time. I won't name the names but we're hoping we could get hooked up with them. That didn't happen. More of the dream. But ironically after the one album with me, they went off to change their name for whatever reason and they did like a 12-inch with another label. And one of the songs was with Eminem before he became big two years prior. So I still have to the 12-inch of them after they left me. So that's kind of my almost sort of claim to fame but I don't tell that story very often. So that's interesting that you have that same history.

Dan: So I wrote a song title, it's called Forever High and it's about people who didn't know they could be thinking, well, I'm forever high, smoking weed, and staying high all the time. And for the people who helped write the song, it was a wild style from Crucial Conflict, and he did have a song called, Hey which was about smoking weed back in the day. He produced it and then we had Jaz-O who was one of Jay-Z's mentors. They had originator back in the day, I guess. It was really, really cool being a part of that. And then this kid heartbreak Rebel. Who's the one who has-, who got murdered a year ago, I guess it was now. But that was our song that was probably the most fun to produce, put together, and just be a part of that thing coming together. So it didn't-, I don't know, I think we've got five, six, seven million views on the video or something like that. It's not a household tune by any means, but it was really cool to see that come together as a side project a couple of years back.

Jim: And now here you are in real estate.

Dan: That's right. And I was in real estate through that time too. So that was, you know, it's kind of like the rich guy investing in art sort of a thing. I was really rich when we did it but I digressed. So you and I both land where we seem to be called and get the most results. I'm buying and selling real estate throughout the United States and you are focused in the Pittsburgh

Market. Do you want to maybe give us the evolution of the real estate business for you and what it looks like today and what you're hoping to do for the future, Jim?

Jim: Sure. So I came here, I started off with single family. I didn't know the area. I didn't know the markets. I already had a disastrous first purchase. I lived in California and bought a building in Eastern PA and it was just a mess. So coming to Pittsburgh, don't want to make the same mistakes. I've learned from all that. The first two properties that I bought were actually from the same seller. He carried the note. I still have properties today. You start off with zero percent interest and made sense. When I refinance that and paid him off, it's worth a lot more than I paid for it. It's like, "Okay, this worked out well." And from there, I just-, I did some flips for a little while to build a little pot of money. Way too stressful for me, so I've stuck with rental since then. Single families, duplexes had been growing since then, a couple of six units, and I think I mentioned to you we closed on a 28-unit townhome package and a 25-unit, building.

Dan: Nice, congratulations on the scale there. So is that what your whistle now, to no longer want to add single-family rentals to the portfolio? Have you made a transition or is this is a, "Hey, welcome with my arms open. I'm happy to take another duplex, single family. If that feels good, I'm in." What where you at with that, Jim?

Jim: I try not to do too many, but I have a great relationship with the wholesaler in town, and he brings deals to me, you know, and he knows I close-, if he's going to buy, I'm going to buy, and no competition. He brings me killer deals. Like okay, fine, I'll take it, so. I have a crew, so I go to renovation company, management company to support all this. So sometimes I buy stuff just to keep the crew busy for any slow period. So if it makes sense, I'll buy it but I am focusing on the bigger projects. I've got a partner out of Michigan. Were working together on big syndication deals now. He's got tons of experience. I think he's purchased 1500, 2000 units syndication deals, so we've got one of those working on. But we're talking about the before the show so.

Dan: Nice. Yeah, I think it's pretty cool. So when I was doing the research for the episode and we had gotten together to book the episode, I was excited about our episode because you're at this transition point, Jim, where I think a lot of listeners... We got a lot of people who are listening are probably really early like first couple flips. They got 2, 3 rentals. They're buying deals from our organization that kind of thing. And then we have people who are probably right at the level where you're at and they're making this transition to scale, and I would say that I'm probably right at that same spot. Like I've never been the general partner in syndication, but I'm under contract and in the middle of a few that are there 45,000, 50,0000 square foot and larger shopping centers where we will bring in syndication money.

I think a lot of investors I would guess, maybe not a lot, maybe there's a few who are looking at that transition some point in the future, a year, two years, five years in front of them, or maybe they're at that point now where it's like, okay, I'm starting to see the value of scale, yet I have this machine and the system and these resources. These assets build up to be able to take down the single family. And maybe I'm probably never going to give up buying and selling single family and duplex houses ever, right? We did 323 last year, and we did 175 this year. And I think like 170 plus that are either under construction or under contract and awaiting close. So we have this very large team. I'm like, I'm not giving that up and there's a lot of people, right? The team is a little different because there's a lot of deal makers involved there versus the contractor piece. But having that key connection to a wholesaler in a marketplace, it's like, it's a relationship that continues to pay dividends.

Jim: Absolutely.

Dan: So why not, right? And I remember that's how I started my career is I was that wholesaler and one of the guys who's actually one of my partners in the business now, he was like in your shoes. He had the renovation crew and he had the money lined up and I was just a young kid and sometimes we would 50/50 on a flip. Sometimes he'd pay me my fee and he'd keep it as a rental but it was really convenient for me as the wholesaler who was just starting to have a Jim Fredo in my phone because it gave me the confidence to go out and make an offer. So it's a perfect partnership for anyone who's listening. Which guy are you? Are you the Dan Breslin wholesaler just starting his career and you need to find a trustworthy, competent, always willing to close and stand by his word type of Jim Fredo? Or are you on the other side and your assets are I've got renovation crews and I've got money, and maybe I should take the call from the newer wholesaler and have that coffee meeting and close on that first deal. Not renegotiate, not squeeze them too hard, right? Just like view it as the partnership that it is because it produced what, how many? I mean, is it a dozen deals more than a dozen now, Jim? Some...

Jim: How many deals some up to 97 doors?

Dan: Yeah. And this wholesaler specifically, like how many deals do you think you've gotten through him?

Jim: Oh, boy. Probably a couple dozen or more.

Dan: Yeah, I mean that works well for both parties, right?

Jim: Yeah, it does.

Dan: Yeah. So I think I think that's pretty cool, and that's why I was excited because it's just reminded me of sort of this stage of growth that were at. And we have a lot of syndicators who come on the show, and there's a lot of this like talk of scale and people moving to the next level, and we don't often get to have the conversation about right where we're at now, which is sort of the pivot point that you're at.

Jim: Yeah, yeah.

Dan: So what-, while we're on that, what scares the shit out of you about growing to that next level and doing syndication deals?

Jim: Some of it... Honestly, I'm not sure if anything scares me about it now. I think I've gotten past that.

Dan: Okay.

Jim: But I'll tell you what it was, sometimes it's enough or start adding a zero and it could be a little intimidating. The scale of it. How do I handle this? The legal paperwork. Who do I get to do this? All the pieces that go in. What are the general partner percentages? What standard? And if you look at it, you've got asset management and just tons and tons and tons of different numbers in it, and what standard? I had no idea. So I've done the research. I've got a partner who's done it, so I can rely on him to know what some of these standards are, and the rest of it is really wash, rinse, repeat.

The biggest difference is unfortunately, I have connections like if we do something in Pittsburgh to bring on more contractors but the biggest difference is when you're doing a smaller scale, you might be turning a unit or two a month. And when you're doing a bigger project you need to do, let's say, 10 a month, and obviously, you need more people to do that and that was one of the education [inaudible] from my partner. That's not a difficult hurdle to overcome, especially if you have the experience. So, prior to having someone on board who has done this start to finish multiple times, there was a lot of anxiety about, wow, what am I getting into? What are all these numbers? But I feel pretty good about this and having a good partner to work with to guide through that.

Dan: And I think some of the transition as you talk for me having the partners lined up. So I built some relationships over the last few years. Some of these guys we were doing single-family flips together. Now, they have already gone on to the 40,000, 50,000, 80,000 square-foot industrial and retail deals like the guy that I'm thinking of, so it's already someone I have a level of trust with. It's already someone I've had handshake agreements with where we're trading back $100,000, $150,000 wires without any paperwork. So I've already developed this level of trust with somewhat large dollars already in play with these partners. And so for me, the turning point is I own every single rental by myself. And we do flips. I like it. There's sort of an end date, right? We're flipping a house. We're not going to own it. I hope more than, like, 18 months on some of the ones, I've lost money. Usually, it's three, six, or nine months and we're out. Maybe 12 at the long end and we're making our profit but there's like this nice final winding down or final accounting of each deal. I like that. I like the end date. Whereas with all my rentals, Jim, I just buy them. I'm like, I'm never going to sell them. It's the Warren Buffett mentality. The best old period's forever and I'm looking at them now, I'm like the best old period for some of these will be if I can get out of them at 36. I don't even want some of these anymore as I'm going to the scale.

So not needing to own the entire project myself has been a big limiting belief, right? I got to own it all. It's just a control issue. I want to make sure I have all the accounts. I don't want anyone to make decisions that I would want to question, and I've gone in as LPs on several projects and own large projects right now. I have no access to the bank account and I get my distribution and it's really nice. So I've been able to overcome the lack of control piece. And now from the syndication thing, the first thought was well I'm going to syndicate it and I want to be the only GP, and I'm going to do all work because I don't want to split it up. So having more of an abundance mindset around, okay, I can have two or three high-quality partners in the general partnership who are going to bring other strengths that I was always a figure it all out myself guy. But why not tap into someone who's already built a leasing team and leased out 100 units.

The partner that I'm speaking of has leased out something around 4, 5 million square feet of retail space. Like that guy is going to be able to get our center filled up a whole lot faster than me trying to learn that process all the way through. So it's just-, like I said, it's literally the mental evolution that I think I'm facing as our company is scaling to the next level as we speak.

Jim: Yeah. You know, it's not something new I came up with, but I often repeat the phrase that it's better to have 10% of something than 100% of nothing. And it's the same mentality if you bring in partners. No, you don't get to keep 100% anymore but you're involved in a winning project and you can grow from there. So absolutely bringing in the right people, it will help you scale and grow and have more success than if you try to do it all yourself.

Dan: Yeah, 100 percent. So let's talk management philosophy, Jim. You've been full-time. I think we were talking before the show started, six or seven years full-time. You bought that house in PA. It's Reading. For all of us Philly investors that are listening right now, we know Reading can be a challenging low-cost market with low rents that might look a lot better on paper from California than it looks if you're walking up and down the street trying to rent one of those properties out. We'll leave that one aside. I imagine you probably had a property manager in place there and I'm leading into a question of whether or not you self-managed your properties now. And if so, or if not why that decision?

Jim: So that property was actually 18 units. I[?] started big.

Dan: Oh, gosh.

Jim: Yeah, in Reading, yeah. It was four buildings, 4, 5 units. Every building had a property manage, and as I came to find out she was ripping me off. And on paper, it was an amazing deal, like 21% caprei[?]. You just going to make a ton of money. It assumed that you would sell the units. They pay their rent. They wouldn't destroy the units, wouldn't sell drugs, and none of that was true. Shared utilities, they break the lock box off of the thermostat, cranked it up to 85 degrees. You go through in the winter and you see the windows open for fresh air. They're walking around in shorts and you're paying the bill. So many learning lessons. Yes, never again. But that property manager, I got rid of her. I use the tenants. I couldn't find anybody else and it was just-, it was a disastrous project, and I learned so much from it. So fast forwarding, I'm like you. I'd like to have a lot of control over things, and I have learned to let go and branch out. So I did all my management myself.

Now, I have a long-term friend who is a commercial-, she's a commercial broker, but she's managed commercial properties for 20-plus years, and we've started a management company together. So she's now taking on some of the management responsibilities and we will, you know, we're working on transitioning more of that over to her as she grows a team. So I'd like to get the day-to-day management. But I've made it easy because we renovate our property so there's very little maintenance calls and it makes the management of it easy. But I do want to get out of that day-to-day and that transition is starting to happen.

Dan: Okay. So the renovation makes it easy and I know from my own experience, I am working my way through. There are a lot of tenants I inherited in the building, so I bought...

Jim: Well, inherited tenants are just the best, aren't they?

Dan: I mean, these are very sarcastic. I mean these are because they're paying more rent. We've had a couple that we've had to work our way through before we could get in. And every time those units go vacant I'm not quite over-improving the property on maybe a few of the units I did. I put central air in my unit building and maybe I didn't have to, but I'm getting really strong wrenched[?] there and I think a lot of the people are kind of hanging out, but we have less maintenance calls on a property that we renovated. So is that the reason why you do that?

Jim: Yeah, you get better tenants. You don't have the maintenance calls. Maintenance calls are expensive and preventive maintenance is another thing. If you call them[?] when you fix things on a regular schedule before they break, you save yourself a ton of money. So just for example, go through and change all the guts of your toilets on a regular interval before they start leaking, especially if you're paying the water, then you save yourself a ton of money, and you can have someone go through and do those at a very inexpensive number versus, hey, I need you out there right now, we have a problem. Now you're talking a couple $100 extra, you do that a few times and it just doesn't make any sense. So the regular maintenance eliminates those problems.

Dan: What's the interval in the toilet guts?

Jim: Six years is a pretty good interval.

Dan: Okay, that's interesting. Yeah, I mean probably I don't know, 100 units. It's probably a few thousand bucks but it's worth it, right?

Jim: I mean you can get the gut... it depends on where you live, okay. But the gut's 20 bucks maybe. You know, if you have someone go through and do it, you can get it done for 25 bucks a unit. It's not, you know, they're just going through the spending the whole day changing all these or two, depending on the number of units. It's a lot less than paying a plumber to go out there and paying $150 to $250 to change the parts in one toilet because you have a problem.

Dan: Are there any other non-obvious things of that nature that landlords would take the number of years you did to figure out?

Jim: There's a whole schedule of things, you know and from-, you figure out the life of your roof and your water heaters. Yeah, I know it's nice. We want to stretch that and get every time you want out of it. But just take water heaters. Let's just pick a number. You know, they're good for let's say six years, and let's say, you go or at nine years, we replace this good/bad or otherwise, we replace it and maybe you lost a couple of years of use of that. And you can say, "Oh, I didn't get all the money on that." But picture the water heater breaking and flooding the whole apartment. How much more damage have you incurred? So you're saving yourself-, and you get that frantic call they don't have hot water. It's not like, "Well, get to it next week." You have to get someone out there right away which increases your cost. So by doing a preventive maintenance, you're actually, in the long run, saving yourself money. The niche is finding a good interval that works balancing the dollars. Maximizing the dollars of the asset and minimizing the emergency calls.

Dan: So what do you use to track the timelines? Is this a long spreadsheet of your whole portfolio? Do you have calendars set up? How did you figure out and manage one?

Jim: Well, for the moment, it's pretty low-tech. It's a spreadsheet. You build up a list of what, how long things last, and when things were replaced in your buildings, and you kind of keep track of it that way. Ultimately as I turned over more to management, how that in place in software that would just go, hey, this year, you got replaced water heater or whatever that is. And again, I want to get out of that piece of it, and I want to have that automated so that it is a seamless process for everybody.

Dan: Yeah, another one I heard recently was going in and replacing the traps underneath of all the sinks. So they would just do that. I think the guy talking about that was doing that upon purchase. So 20 bucks for each of his 28 units, whatever it was. I guess he's doing every sink that's in there but you're stopping the maintenance call, right? The maintenance call now plumbers there for a leak that's underneath the sink. I've heard people doing the valves going in and replacing all the valves throughout the entire building. I have not done any of that kind of stuff. Unfortunately, I'm just going to bite the bullet when they come, and I am going to have to pay the price.

Jim: [inaudible] we buy unit would usually change all the outlets, all the switches. We don't know how old they are, but under weather condition [inaudible] on usually they're not great. And again, if I have an electrician come, if there's an emergency, something's not working, 150 bucks, 250 bucks to change a light switch. Or as I could have someone at a lower cost, just go through and place everything at once in a day and it's a fraction of that. And then I don't have to worry about those for probably a decade strictly[?]

Dan: So on your single-family purchases, are you typically buying vacant properties that need some renovation, renovating, pushing the value then refinancing back out? Is that kind of the model when it came to it? Okay.

Jim: Yeah. So I do value-add and it's usually one of two things, poor management or poor conditions. So, in single families it's usually poor condition, and on your multi-family, it could be a combination of poor condition and poor management.

Dan: Yeah, on a multi-family, I mean that's how I like to buy on the ones that I have bought. I honestly... we're talking about replacing these items, Jim, and its toilet guts, and its water heaters. And its air filters in the units that I put in there myself, my HVAC units because if not, the air filter pulls in. And now it's a $1200 HVAC emergency repair, there's no heat, and they have to change the motor and maybe the board because it's all fried. And I'm cringing, and I'm talking myself further into our industrial and retail property space. I like the shopping center better. I like the triple net lease. Yes, there's a huge build-out for a restaurant. It's $300,000 to outfit the restaurant, but beyond that, the restaurant's going to change the water heater on their own assuming they're there eight, ten, twelve years from now. They're going to do the maintenance on the HVAC themselves. I mean, I may have a roof repair that's tenant responsibility, but man, these commercial tenants can be a lot more hands-off than our residential tenants who are living in the property and kind of wearing them out and everything is on the landlord in that instance. I just...

Jim: My partner has done commercial for 20 years. I could tell you horror stories of commercial tenants. I tell people, every real estate has its advantages and disadvantages and you pick what you like and what works for you. I know people who do commercial and they absolutely love it and they do well with it, And they're like, go out of tenant and they'll be there for 5 years, and tenants turning over every year. But then I dropped by this restaurant near me that went vacant 10 years ago now. It's been boarded up for 10 years. That gives me heart palpitations like that's been sitting there vacant for 10 years. I don't have that with residential. I filled them quickly. So I say pick your niche and what works for you and what gives you minimal heart palpitations.

Dan: That's right, that's right, yeah. The liquidity of the retail or the residential market is just fantastic. I mean, I remember buying the first apartment building and my fear was that I have vacant units in their 8-unit, building 10-unit building. I think I wanted too[?] bad, tenants that I knew were going to be bad. So I had to go through that eviction, took forever here in the city of Chicago but I was amazed at how fast those units rented once they were done. It was like almost instantly they were rented and it still is almost instantly. Now, as I turned them over and cycle out of the low-rent tenants who do leave, it's quick, it's really fast. So that fear that I had turned out to be totally unfounded. Maybe we're in a strong residential household formation cycle. We have been for about a decade where household formation has been strong, and if we hit a lull in that demographic wave we may have to wait 60 or 90 days and have reduced rents but it's been a really strong market for rental residential real estate for a really long time. I don't really see that changing anytime soon.

Jim: Yeah, I think you hit on the key part of real estate, no matter what you do, you need to know the trends and the cycles in your market and pay attention to those and stay ahead of them. So for example, I read a book about general market cycles years ago and it stuck with me. Manias, Panics, and, Crashes I tell people about this book.

Dan: What's the name in the book, Jim?

Jim: It's called Manias, Panics, and Crashes. It's very dry, but it's really good, and you see these cycles repeating over and over again. I saw this prior to 2008 in LA. I saw the Mania, and I'm retractable[?]. But, you know, hey, look at this, this isn't sustainable and everyone was saying, "I'll bet this time it's different. That's your key that there's a problem. Rewind before covid, I saw the prices increasing. I'm a little nervous here and people, "Oh, no, no. It's strong. This time it's different." I said, "I don't know what's going to cause a recession." Now we're talking about, I don't know, the wrestler's first[?] recession history or none. I don't know how it's gonna play out, but what I started doing was all of my res-, all my rentals, I refinanced into 30-year fixed mortgages. So I don't know what's going to happen but what I do know is I know what my expenses are because here where I invest, property taxes don't change. So your big [inaudible] your property tax and your mortgage, they're set. They're not going to change and that's comforting. So no matter what happens, I can write through that, and I say that because no matter what market you're in, whether you're doing shopping centers or office buildings, understanding the trends and planning ahead for those trends because they'll be cycles in every market, plan ahead and be prepared and that will be-, that will eliminate a lot of sleepless nights.

Dan: Who is the lender for the 30? Because if you get past eight or ten, it starts to become a pain to get mortgages.

Jim: I don't work with banks.

Dan: Okay.

Jim: Sorry, for my bank friends out there, I don't like banks. They're a pain in my butt. So they're mostly the private lenders that resell. They sell to life insurance companies who will hold them for 30 years, so there's an aftermarket. They have different markets that they sell to. There's a whole host of lenders that do this. So you work through a broker, they had the lenders and they'll do a 30-year fix. My local banks will do 20 or 25 years maximum and that interest rate is fixed for five, maybe 10 years. That's it.

Dan: Yeah.

Jim: So, now on a big syndication deal, a lot of these, the play is five years, so, okay, doing a five-year deal, and they're planning to get out. My plan is, I hold forever, but as I've learned, forever isn't always forever because sometimes it makes sense to take your chips off the table and move it somewhere else where you can do better with it.

Dan: Yeah, I know Renovo Financial is one of those lenders who would do...[crosstalk]

Jim: I work with Renovo now.

Dan: Yeah, 20, 25 units, 30 units. I forget all their limits, but anybody who's listening who's interested in that portfolio-wide 30- year fixed term, fixed-interest rate product, Renovo is-, they're kind of an upstart. I think there-, I met the founders. I know them. They're here in Chicago, maybe 2015, 2016, and probably just a few years old at the time and they've got a tremendous number of great products from hard money loans to this fixed 30-year term, which may be right now is not the time to do that. So let's probably, you know, wait till the election season, and maybe the interest rates cool off a little bit and that would be the time to lock in the 30-year but good resource nevertheless.

Jim: RCN, I'm not trying to take away from Renovo but
RCN is another one that I've worked with that does 30-year fixed. I'm sure there are plenty of others out there that do the same thing.

Dan: Yeah, listeners can probably Google that and start there. And if now is not the time, maybe you're putting that county[?]...

Jim: Or reach out to me, I'm happy to put you in touch with my broker and you know.

Dan: Both[?] they can help you out great.

Jim: I mean...

Dan: Yeah, one...

Jim: [inaudible] get a share, so.

Dan: One thing I guess with the shopping centers in the industrial is I've learned that the successful people I know that do that, treat it more like the hot potato. So you're building these leases their expiring in five, seven, or ten years, and they're only going to be marketable as long as there's three years left on the lease. So any leases less than three years in a commercial, it doesn't exist. It's not counted by the bank. You really can't count on the income. It has to be renewed lease for five, seven, ten. You have to have term left on the lease. So a lot of the strategy for shopping centers is buy it with 50% vacancy, lease it up, build it out, season the financials for maybe a year or two, and then that's it, we're selling it. We're selling it like institutional buyers who are going to take that on and maybe in areas like Phoenix. We're talking like around the country type of environment. I have friends who sold shopping centers for 4, 5, 6 million dollars, right in that range. And these are areas, Jim, where the rents are 10% year-over-year right now, and the vacancy I think is at like 2% or so. Something really, really low. So Phoenix has this like, great Perfect Storm kind of a scenario. So maybe these institutional investors who are taking the hot potatoes, some are going to win when you have growth markets like Atlanta or Phoenix, or perhaps even areas in Texas, although I'm not sure. They're going to win based on the increased rents because they will have that renewal, right? It's really hard for a business that's been successful in a location to then up and move to somewhere else. Will they do it? Maybe for the better lease rate. If it's a 4%, 3%, 5%, vacancy kind of market whether that's industrial or whether that's retail, you kind of have a motivated tenant there and you have a strong negotiating power. But the-, again the successful thing is buy it for 4 million. Put a million dollars into it and sell it for 7 and just get the hell out regardless of what the next person ends up doing it later.

So while we're on that topic of markets, can we touch on the Pittsburgh market, right? This is not necessarily the United States growth market that everyone is talking and shouting from the mountains about investing in Pittsburgh. So why are the reasons obviously live in Pittsburgh? Are there some other economic reasons that it makes sense to build the portfolio and own in a city like Pittsburgh?

Jim: I'll give all the secrets away. I always joke and I tell people Pittsburgh's not very good, you shouldn't come here. But now it's been a great market. Pittsburgh is a little unusual. If you look at it on paper, if you're a national investor and you do your numbers and you have your criteria and you look at Pittsburgh, you would go, there's no way in hell, I'm buying at Pittsburgh. The numbers don't make sense. The population on paper is decreasing, not by a lot but is decreasing. If you dig in a little bit deeper, what you're finding is, Pittsburgh was stagnant or decreased for decades after the steel industry has left. They've rebuilt. They brought in all these other Industries. They're very diversified now. It was a very old population. So what's happening is the older population that didn't have that much money because Pittsburgh was not a very wealthy city, they're dying off, and the people who are coming in and they're taking the tech jobs, they're making up more money than the people who lived here previously and what it's doing. So our population, they look like it's dropping but we have a lot more wealth coming in and it's changing neighborhoods.

So there's a neighborhood here called Lawrenceville, used to be very run down. This is all working class rundown neighborhood and it was one of the first neighborhoods to turn around. And people are not priced out of that market. They can't afford it. So there's always this conversation among investors in Pittsburgh, what's the next Lawrenceville? We had plenty of Lawrenceville. East Liberty is one. They've got a brand-new apartment building in [inaudible] and rents there, I think they-, I think I heard them say $3000 for a studio and seen numbers and seen numbers for Pittsburgh. And that's certain to grow and that market is starting to filter into other markets and you're seeing growth in numbers, in sales numbers, the rent rates. You're seeing it creeping around a lot of neighborhoods, around Pitts[?]. So we look at the numbers on paper, it doesn't look that exciting. But when you dig down into the granular, there's a lot of opportunity here, so, it's been terrific for me.

Dan: It sounds like, you know, like any market. I'm amazed. So, I'm like, spoiled and I have a very ignorant view of the United States Market. Because I grew up in the Philadelphia region and we have eight, nine million people, something like that in the whole MSA for the Tri-State. And then in 2015, I moved from Philadelphia to Chicago. My daughter lived in Chicago with her mom, and she was like 13 at the time, so I wanted to be there for high school, that's why I moved to Chicago. So, I did that and that's why I opened the office in Chicago and how our company grew and I'm spoiled again. It's another 8, 9 million person MSA and I tried to go in and out some other markets, Jim, with the business model in Florida. We still do it like business in Florida, but I also went into Atlanta and I was intentional about Atlanta because I heard Atlanta is great. And there's people moving there. It was a very high-level market approach to my reasoning for wanting to be in Atlanta. It worked out very well and we saw a lot of areas still in the process of just seeing a lot more private investments.

So we saw areas where houses would sell for $30,000 to $50,000 maybe cash to guys like you who are going to do the buy-rent refinance renovation strategy. Those neighborhoods are going for $150,000 to 180,000 in cash now. And the numbers still work for people to get in and spend say 20 grand cleaning it up, writing it out and maybe the retail numbers are up like, $250,000, $280,000. We see a lot of areas in Chicago that were very, very cheap. When I got here in 2015, it was 20 grand, it was 25 grand. Those same houses are probably $75,000, $85,000, $90,000, $100,000 for cash and all fixed up there probably $300,000. I think it's-, and these are not necessarily safe neighborhoods that I'm describing right now.

Jim: For $300,000.

Dan: Still it's just that was these what I would call sleeper markets, where flippers-, flipping properties can be great but guys and gals who got in a business in like 2009, 10, and 11 somewhere near even 13 or 14, they could flip houses in neighborhoods where they lived. They could find Oreos in grade school district and they could get in. They could do a renovation. They could buy them off the MLS through real estate agents. They could get them in sheriff sales and you are able to flip in top-tier school districts, right? These were probably $300,000 to $500,000 ARV houses eight or ten years ago. Well, a lot of that inventory is gone and you can't really get-, you can't get anything in those neighborhoods. Like the houses that have the wallpaper and they're dated in these neighborhoods, they're selling for like retail numbers. Now, the numbers would never work for you to buy it, fix it, and sell it. It's not going to work because the owners are willing to take that conditioned property in those areas to be in to get their foot in the school district and get their foot in the door. They'll do all the work themselves. This is how markets were in the early 2000. They got to be very similar to that.

So these sleeper markets for the flippers who were able to maintain their volume, they just had to drive farther and into neighborhoods where maybe a lot of the contractors weren't quite as comfortable. So some people got out of the house flipping business altogether, stick with the rentals. They don't want to have to go work where they may not necessarily feel comfortable or feel safe in some instances. But I think overall that inflation and that limited inventory market, I think it's been very good for areas of Philadelphia, areas of Chicago, areas in these outlines, Southern areas in Atlanta. It's good for that investment dollar to chase those neighborhoods because people are able to sell the houses for more money when they want to get out. And there's, you know, there's just more money to go around. There's like there's work to have.

So flipping still works, but it's working in a lot of different places than where people initially wanted to be. But I say all of that long-winded lead-in to say that it sounds like Pittsburgh is an area, just like any of these other cities throughout the country, where it doesn't have to be this 10 million-person Metropolitan Behemoth, in order for it to work. That's like where my ignorance comes in, but there's towns where there's a few hundred thousand people or even less, but it's like the right little pocket of town where Jim Fredo with the localized knowledge is probably picking up from his wholesaler contact, the house from the right area, grabbing it, renting it, and you're knowing that you're probably getting it localized depreciation. Is that correct?

Jim: Yeah. Yeah. Also having the connections in town to get things done, renovations, or whatever you need. And that's something in a smaller place that is a little more unique, I think versus like Los Angeles, you didn't have that problem. You know, money talked there. Here, relationships matter more, and in fact, if you come in and you approach a contract here and act like, "Hey, I've got money, you do what I say." They won't do it. They don't need to. They'll ignore you. It's just honest truth and I see out-of-town investors come in with this attitude of, hey, I've got all this money and you know, I just want you to do this, do for cheap and they're like, I got enough business. I don't need yours and they just walk away. So those are some unique aspects about Pittsburgh as well. So not just knowing the granular aspects of the neighborhood, but the people and how the system works. They keep outsiders out, huh?

Jim: Yes, the assets to get it done. I think, you know, we have, I guess a couple pieces of deal. You have finding the deal itself. There's value there that's why you pay the wholesaler his checks with a comma in it for sure.

Dan: Absolutely.

Jim: You have the contractor resources, right? So you develop that relationship, you learn how to run those contractors and then you have the capital whether that's hard money, whether that's private money, whether that's bank refinances. Those are kind of the three stools of the leg to get into the deal. And then the fourth piece would be proper, effective, operational management over the long haul.

Jim: Yeah.

Dan: Right?

Jim: Absolutely.

Dan: Yeah. So maybe the lesson in all that, if someone's listening, now, I know the lesson that I wish I would have learned on a couple deals, now that I've owned them for five or eight years or however long, there's deals I bought in the city of Philadelphia that really didn't move in value very much if at all. And then there's like three or four of them that were in the right neighborhood and I wish I would have liked just bought in that neighborhood all the way through because those ones grew at that clip like East Liberty or the Lawrenceville neighborhood. So selecting the right little micro market to hold your rentals long term is an important piece of the pie, right?

Jim: It is. But, you know, I tell people you buy for today, it's got a cash flow today. You can't count on that appreciation. It has cash flow today. If you can predict the growth and take advantage of it, that's icing on the cake, but you can't always predict crazy growth. Now, I mean, I can see some of the trends, the local trends but you can't always predict that accurately. So as long as your cash is flowing and it will cash flow long-term, that's really the key to success. And the appreciation is icing and I thought the sad part about it is it may appreciate well but then you sell it and you don't have that asset anymore. You can buy something else. So I won't complain about-, I have a few single families that are in that boat that we will ultimately will sell and will roll that money into something else because the rent does not cover what those properties are worth but then I won't have that anymore. So it feels like a little bit of a loss.

Dan: So yeah feeling

Jim: But, you know, because that appreciate that selling. When you do a flip it's one time. So you have to keep doing it over and over, whereas with the rental, every month the money comes in and that's what I prefer. So you've got to buy based on cash flow now and cash flow continuously, and if you can predict the growth and get some great appreciation, that's just-, that's nice icing.

Dan: Are there any other markets around the country that you're paying attention to or maybe thinking about investing in, Jim?

Jim: There are. I had my eyes in Texas. I think everyone's had their eyes in Texas. A couple of markets, I think are great, but Pittsburgh's kept me busy, so I haven't pulled the trigger on those neighborhoods. I think I mentioned to you, I've got a partner I'm working with for the syndication to big deals, and he's been doing some work in Florida and Memphis, and we're working on one now in Memphis. So having his expertise in that market is tremendously helpful, but there are a lot of good neighborhoods around the country, but I kind of believe in sticking to two or three at most but that's just been, I like to become an expert. So in Pittsburgh, I'm an expert in particularly some neighborhoods. If you tell me a street and the block, I probably can tell you if that's a good block, a bad block, or what's going on there and it helps tremendously in moving quickly on buying deal. So, if you start justifying too far, I think you lose that expertise. It doesn't mean you can't be successful, but the more expert you are on a particular city or neighborhood, I think you have some advantages in finding properly[?].

Dan: Yeah, definitely have a feel for what the rents you can push in certain areas. You got your contractors there. I've always I guess had this like larger view being that we have three offices. So I probably pull comps on deals, I don't know, 30 times a day and they're spread throughout the country. So I'm constantly looking at all these different markets and there's an area, you're familiar with like Stone Harbor and Avalon in New Jersey?

Jim: A bit.

Dan: Okay. So I think those houses were probably selling for two to three hundred thousand in the mid-90s. If you did nothing to that house and it's still dated, it's an island, it's on the Jersey Shore, and those two markets are on the list of 50 or 100 of the top most expensive in the country, so that dated house is $2,000,000 now for the teardown, for the land, and I'm like, I first started paying attention, Oh, I'd like to get a shore house and I saw like the pricing. Oh my gosh, this is never mind. But man, if you can select just the right property and just the right location to allow that sort of long-term. Sorry. It's like so what is going to be the next Lawrenceville, like, I want a few pieces of those. I want to take a few flyers. I'm not willing to go negative cash flow to your point to be in one of those locations necessarily. But some of those really large spreads over a long period of time, I don't know, it's attractive. There's some allure there for me. I haven't cracked that code and I don't have the system, but I'm certainly paying attention to different desirability levels and for different reasons throughout different markets in the country, and yeah who knows where that's going to go? I mean, we're at a very interesting market cycle here in 2023. None of us know which direction it's going to go. Did we inflate to these new levels or is there a slow unwinding correction already happening at our feet? The answer is anyone's, right?

Jim: I'm planning for the worst and hoping for the best.

Dan: I'm with you there. So, let's do-, let's do a little wrap-up here. I know we had touched on Manias, Panics, and Crashes as one book. Is there one or two other books that are worth mentioned, Jim?

Jim: I always have to mention, Rich Dad, Poor Dad. That's really what got me started. If you haven't read it, it should be mandatory reading in school now. It's just-, it changes your mind about money and assets. And it's the stuff we didn't learn growing up and if you haven't read any have to read it. It's just-, it's like a starting book for everybody. Another one I read recently I really like is, What Got You Here, Won't Get You There. And when I read it-, when I started reading it, I thought it was going to be about, you know, changing your market approaches or business systems. And it really is about your emotional intelligence and how you work with people and as a leader with your employees, how you do things to get better results. Things you've been very successful but there are things you're doing that are holding you back. Excellent book. Really worth the read. It's due to that next level in your business.

Dan: Nice. Yeah, there was another man. His name is escaping me. He was a guest on our show. He's actually from your area if I'm not mistaken. He's probably within an hour drive of where you're located right now. The book was called, The Wealthy Gardener. Let me see if I can... Anytime Kiyosaki's name comes up, John Soforic. So he wrote this book, I just felt compelled to mention it again because it's the Rich Dad, Poor Dad. But what he did, his son was in Temple and he was trying to communicate to his son. The mindset that you and I developed over buying rental property and kind of ask, that's what we learned from Rich Dad, Poor Dad. So he started to kind of write these long-winded emails, I believe, back and forth with this sun which eventually grew into the book, The Wealthy Gardener Life Lessons on Prosperity. So it was a way for him to kind of pass down the family knowledge to his son that he was really doing in real time with his son editing the book but the real motive was that he was trying to teach us on there. So it's kind of a backdoor entrance in but it was right along the lines of yeah, Robert Kiyosaki's book. It's definitely worth it. I don't know if it's on Audible or not but it was definitely worth a read. It's not too long.

Jim: I will look for that.

Dan: So the crown jewel of wisdom, Jim, if you could go back, you know, you're heading off to California to get this hip hop group started, what would be the crown jewel of wisdom you would share with yourself then knowing what you know now?

Jim: Well, you know, I thought about this so much over the years. Things I would have done differently in LA. LA is a very expensive city, very expensive to buy real estate, to live in, certainly to invest in. And when I lived there, I thought it's just not possible. I mean, I barked with some people who had billion in real estate and I used to go, just thinking, how do you make that work? Well, it always starts with one, right? So you don't get to a billion without starting with one, but how do you do that at that price? And, you know, I've learned as I'm sure a lot of your listeners know the house hacking tip. So at a young age, you can get into a house. You can do an FHA loan or three, three and a half percent. When I moved there, you need a 20%. It was a crappy market, that's needed. But you could do an FHA loan which I didn't know about which would be a lot less. So when-, at that time, it was like 50 thousand dollars down payment. Right out of college back then. It was a lot of money. I don't know what that would be today $300,000.

Dan: Yeah, right.

Jim: So you know 300,000 or so it's a lot of money but you could house hack. You can buy a house, you can have roommates. you can buy a duplex, rent one side and you could have someone paying for your house and cutting down on your living expenses from day one. And it's a brilliant technique. I did not use it and I wish I would have known. I could have gotten started a lot more. When I first moved to LA those little bungalows that were like 800 square feet were selling for $200,000, $250,000 those that are left, they're now selling for close to two million. So it's similar to the property you're talking about, but you know, it's so instead of renting, I could have purchased one of those, had someone helping me pay that by renting, and I would have had a ton to my net worth at a young age, but I just didn't know. So that's what I would do differently in life and I encourage anybody who's starting out to find a way to house hack if you can.

Dan: Yeah.

Jim: You can't get started any other way, house hack.

Dan: Yeah, ditto. It's like I didn't know about those loans until I was like ten years in the business or something before I finally look at that well, I'm probably not going to go back and get a four unit. Now I got this beautiful view of the Lake Michigan out the window. This is just not something I'm willing to...

Jim: Got to where the way to makes now but... Yeah, yeah, I've already passed that point, but man to do that early on, what a smart move for those listening to do that.

Dan: Jim. What is the kindest thing anyone has ever done for you?

Jim: Kindest thing actually kind of goes back to the musical roots. After '08, I needed to restart, moved to Pittsburgh and there's a musician, you know, working musician, makes this-, made his living off music. You know, his whole life is not necessarily wealthy but he's frugal and he saved us. He loaned me money to get started. He loaned me money just based on relationships, and it went back a little further than that, but he loaned me money for my first deal, my first flip. And, you know, you don't forget that and I go back to him. I don't need his money, but if I'm looking for loans or whatever, I go back to him and say, "Hey, if you're looking for another loan," because he gets a lot more from me than he gets from a bank, always, always give him any opportunity he wants because he really helped me get started. So that was definitely one of the kindest things.

Dan: Just as I said, there's something to the lack of track record in that first loan, I can remember mine as well. I couldn't believe I drove away and met the guy. First, we bought it. There was a check at the closing to help pay for the rehab so, it was a full hard money loan for $50,000. I bought the house for $20,000 and I remember getting the second, $10,000 drawn. Wow, he just gave me a $10,000 trap check. Like, yeah, it's secured by the house, but like I don't have a 9 to 5 job. I have no other means to pay. What an amazing kind thing for those people who opened the door for that first deal.

Jim: Yeah, I know. And they are taking a huge risk. They're doing it based on the relationship, but-, and I tell people repeatedly, never ever burn them. You got it. Even if the deal goes bad, you got to take care of them. You've got to pay them back, because that money means a lot to them. And if you do well, especially that mean that money won't be that much to you but you've got to make sure you pay them back one way or another.

Dan: That's right, hundred percent. So Jim, if anyone wants to get some more information about you or reach out, how can they do that?

Jim: I'm on Facebook all the time, I think you've got the link. They can go to my website. You really do need me to read out the link or you've got it.

Dan: Yeah, we have springcapital.partners.

Jim: Yeah. Like I said, if you're looking for those 30-year loans, you need my broker's contact, feel free to reach out. I'm happy to share.

Dan: All right, sounds good, Jim. I have pages and notes here. I had a good time. I appreciate you coming on the show.

Jim: And it's great, it's great talking with you. Thanks Dan.

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