Ep #367: Jay Conner - Investing in the Private Capital Markets (Part 1)

Full Episode Transcript

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Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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Welcome to the Dentist Freedom Blueprint, a podcast about freedom—freedom from expectations of society and the traditional path to success that has been ingrained in us from our early years, I'm joined by mavericks, renegades, and non-conformers to discuss an anti-traditional path to financial freedom, freedom of time, relationships, health, and ultimately freedom of purpose. My name is Dr. David Phelps. Let's get started.

David Phelps: Well, good day everyone. This is Dr. David Phelps of the Freedom Founders Mastermind Community and Dentist Freedom Blueprint Podcast. Today, I've got a good friend of mine that I've really been looking forward to having an interview, having a conversation, that'll be relevant, I think, to really everybody who's listening today if you like any aspect of real estate. Whether you're more of a passive investor or you may be young like I was one day, many, many years ago, and actually building your own portfolio, either one is okay, it's right for you. But my guest today is Mr. Jay Conner. Jay, sir, so honored to have you here.

Jay Conner: Well, Dr. Phelps, it is my pleasure to be here. And you have just been a really good friend for quite a while now, and one of the masterminds, and I'm excited to be here to talk about one of my favorite subjects.

David Phelps: Private capital. Yes, sir. Private capital. And now let's just describe that just right out of the gate. Because somebody might say, "What do you mean, private capital? What's private capital?"

Let's just describe that right out of the gate, Jay. And then when we do that, I'm going to basically give some of your background, but I want to give them an upfront, get people hooked here, because I'm want them to get hooked to the conversation. So just in essence, what is private capital?

Jay Conner: Yeah. So private capital, private money are interchangeable terms, and/or private lending. So when we use the word private, what that does is it's a 180 degrees the other direction from what we call institutional money, or borrowing money from banks, borrowing mortgage money through mortgage companies. We're not talking hard money when we're talking private capital, the way that I do the business. Hard money is typically a broker of private capital, right? So whether it's a hard money lender to real estate investors, or the individual themselves, it's all the same money.

It's just a matter of... A hard money lender is like a broker of money, like a middle person, that's going to charge points, origination fees, and mark up the money for the money. So here's the real simple definition, private capital, or doing business with a private lender in this space of real estate investing, is it's an individual. It's a human being that is loaning their money out from either their investment capital or their retirement funds. So self-directed IRAs is a whole nother conversation, but it's the individual that's loaning their money out, typically from either their own investment capital or retirement funds, directly to a real estate investor's company, right? So it's a transaction, typically between two people, a private lender and in this context, a real estate investor borrower.

David Phelps: Perfect. So here's some background regarding Jay, just so you know, we're talking to an authority in the space here. Jay's been buying and selling houses since 2003 in a population of only 40,000 with profits averaging 71,000. He's rehabbed over 400 houses, has been involved in over 52 million dollars in real estate transactions. For the past seven years, Jay has completely automated his seven figure real estate business to where he works less than 10 hours per week in that particular business. He's consulted one-on-one with over 2000 real estate investors. He's known as the private money authority. He's raised over two million dollars in private money in less than 90 days when the banks refused to loan a dime. We're going to come back to that because I think that is a key lesson in history that everybody should be aware of, let's put it that way.

Jay's also commercial developer. He's a national speaker on the topics of private money, business automation and foreclosures, also the best selling author of Where to Get Money Now. It's a book that we'll talk about a little bit during the podcast, and to how to get a free copy of it. And he's also a leading expert on private lending, marketing, and business development. He and his wife, lovely wife, Carol Joy, resided in Morehead City, North Carolina.

So back to private capital. We've got the definition now. I want to go back to what I just read here because I think the next question with Jay would be, well, why is private capital necessary in the market today? Why can't business developers, and real estate people, and syndicates, and just turnkey operators, why can't they just go to the banks? I mean, money's cheap today. It's easy to get money. It's cheap today. The interest rates are low. What the heck does the marketplace need with private capital? Why is our money necessary?

Jay Conner: Yeah, it's a great question, Dr. Phelps. And here's the deal, I get that question all the time. I mean, as of when we're doing this podcast right now, I mean, you can go to the bank and get commercial money for 4% or so, in that ballpark. And so Carol Joy and I have got 40 some private lenders right now that loan us money, invest with us in our deals. And by and large, I'm paying most of them 8% or 10%. Why in the world would I pay more than double, or at least double, what I could get at the banks? Well, there's a long list of reasons, but I'll try to summarize the reasons. First of all, let me just say this, private lenders doing business with real estate investors who know what they're doing and know their craft, it's a win-win for everybody.

So let me just ask you from my perspective as a borrower, and by the way, Dr. Phelps, I'm a lender and a borrower. I loan out private money from my retirement account, and I also borrow a lot of private money. First of all, it's flexibility, flexibility. That's probably, and when I say flexibility, there's a lot of specifics to what I say on flexibility. First of all, when a private lender is funding a real estate deal, we close deals all the time in less than seven days, seven days. And when that relationship is in place between... And I call this relationship money as well, it's relationship money. And when that relationship is in place between a private lender and a real investor entrepreneur, then I mean, there's no... See, we get more offers accepted as the real estate investor.

We make offers. Most of the houses we buy in this market are what we call off-market houses. Most of those are not in the multiple listing service. You know, as of now, when we're recording this podcast, there ain't nothing in the multiple listing service because there's no inventory.

David Phelps: That's right.

Jay Conner: And so we, as the real estate entrepreneur, we have to have some very savvy, creative marketing methods to find the deals before other real estate investors, even though the deals are out there. So by and large, we're buying our properties off market. Well, a lot out of the properties that we buy as a real estate investor, either the property is distressed, or the owner of that property is distressed, or both, for a long list of reasons. And when I, as the real estate investor, am making an offer on the property and I say, "Hey I know from what we've said, you need capital. You need some money to maybe move on with your life. I can close this deal. I can purchase your property."

And by and large, most of the deals that I do are single family houses. Private money and private capital, of course, can be used for single family houses, it can be used for commercial properties. I mean there's other conversation of syndication that maybe we'll get to, and we won't, but private capital can be used for any type of real estate deal. But in this world of single family houses, if my team comes along and says, "Hey, Mr. Owner, Mr. Seller, Miss Seller, we can close in seven days and get you most of your money, or at least some of your money, and still let you stay in the house for 30 or 60 or 90 days until you can get on with your life.

Then we get more offers accepted. There's no way on God's green earth we can be closing a deal in seven days with a traditional institutional lender. It ain't going to happen, right? Now for those fast closings to happen, the real estate investor entrepreneur has got to have some very strong relationships in place to make things happen quickly to close in seven days, i.e., you better have a good relationship with your attorney that's going to do title searches quickly, an inspection company that can inspect a property very quickly, and et cetera, general contractors and et cetera, so flexibility, so closing quickly, documentation requirements.

So let me speak back to that relationship. When that relationship is in place between a private capital lender, a private lender or real estate investor, in most cases, most of the time, the real estate investor is not going to have to provide credit scores. They're, most of the time, not going to have to provide financial statements. Some lenders require it, some don't, but not the long list in the process of going through to get approved by a traditional lender. So flexibility, being able to move every very fast. Here's another big one, another big one, when I was borrowing money from the banks prior to losing my lines of credit with no notice back in 2009. It wasn't because...

David Phelps: Yeah, see, that's where I want to go, is because you're heading that direction, so I'm going to let you run with this, but that's the point I make to a lot of the people that we know that are real estate investors. I say they have a boots on the ground, real estate business, and they're good, they're credit worthy, and they've got a good run rate, but I tell them, I said the safest relationships are real people relationships, relationship monies, what you call it.

That's the safest. Banks tend to change hands during market cycles, Billy Bob, who was your go-to guy at the bank down at the corner, unfortunately, during market corrections, maybe exited as the bank changes hands. We saw this happen.

You were just getting into 2009. Your point well said, you have excellent credit. You've been in the marketplace. Having your lines of credit, not your credit worthiness, but your lines of credit, access to quick credit, was diminished overnight almost, not because of anything you did, but because of what the marketplace was saying, and that's the point I want to make to people, along with the other things you said about flexibility, quick to close. But I think the safety in knowing how to access private capital, and have those relationships in place, now when things... When the markets do tighten up, and everybody's scrambling for capital and money to keep things afloat, well, if you've got access to private capital, the spigots have not been turned off and you not only survive the gap of the correction, but you are now positioned to go out and buy those assets, which by the way, are now going on the market at big discounts, sale, big sale. So when you were just leading into that story, you're not the only one that had their credit lines cut back. Everybody did. Everybody did, to various extent.

Jay Conner: Yeah. Well, and you see, me losing my lines of credit, and I'm going to give one more big reason why private lenders and real estate investors enjoy doing business together, is me losing my lines of credit at the bank was the biggest blessing in disguise, at the time it happened of anything that's happened in mine and Carol Joy's real estate investing career. If I had not gotten cut off from the bank, and lost those lines of credit, Dr. Phelps, you and I wouldn't be here today having this conversation, I would not have had any reason to go find a better and quicker way to get my deals funded. And so let me go ahead and give... I'll come back to the story in just a second, but let me give another great big reason that's a big benefit for private lenders and real estate investors to do business together.

We mentioned flexibility, but here's another big one. When I was borrowing money from the banks there was a limit to the amount of money I could borrow, and or depending on the kind of loans you're doing, a limit to the number of deals, or the number of loans, that I could have out at any one given time. Well, guess what, in this world of private money, there's no limit. There's no limit to the amount of private lenders that I can do business with. I don't have to borrow money within state lines, in state. I mean, I get one question I get all the time is what can I borrow? Can I lend across state lines? But of course you can, because neither the private lender nor the real estate investor are regulated by the commissioner of banks. You're doing business with each other as individuals. So as a result, I can have as many private lenders as I want.

So right now, we float between eight and nine million dollars at any given time that we've got deployed on different real estate deals. And so when I was borrowing money, I mean, I remembered like it was yesterday, when I was relying on the bank, I would have to pass up on deals that came across my desk because I was tapped out on my funding. Now, thank goodness as the years have gone by... One question I get all the time is, well, Jay, why in the world would you borrow private money and pay 8% or more? Why don't you just use your own money? Why don't you just use your own money? Well, I think using your own money and your own cash in real estate is a great investment for the short term. I'm not burying a bunch of cash in real estate that I'm going to be holding for three or four or five years. Right?

David Phelps: Right.

Jay Conner: We know how important the access is to the cash. Anyway, those are a few big reasons, benefits of doing business. Now, back to the story, I remember it like it was yesterday, I was actually sitting here at this desk with this actual telephone, right, a landline, an actual landline. And I was sitting here and I had these two deals under contract to purchase, over $100,000 in anticipated profit. And your story of what you just said, Dr. Phelps, is exactly what had happened. My go-to guy, whose name was Steve, well, he left shortly after the conversation, the bank, but anyway, I called him up. I told him about these two deals I've got.

Steve and I had had this kind of conversation beaucoups of times. You know, I got the property in Newport, after-repaired value is 200,000, the funding requires 150,000, then I want to close in 30 days. Even back then it took 30 to 45 days to close using institutional money. And when I told him that, Steve went quiet on me on the other end of the line, which is never a good sign, right? And so I learned very quickly, I have no funding available at the bank. And here's one of the most important lessons I take away from this experience. I hung up the phone and I sat here for a moment. And I said Jay, it's impossible to fail in any endeavor that you go after, unless you choose to quit.

And so quitting was not an option. We're going to find a better way. We're going to find a quicker way.

I pick up the phone. I call my good friend, Jeff Blankenship, who lived in Greensboro at the time. And I said, I told Jeff what had happened. He said, "Welcome to the club. I just lost my line of credit last week." I said, "Jeff, what are we going to do? How are we going to fund our deals?" He says, "Well, there's this guy down in Jacksonville, Florida by the name of Ron LeGrand that can teach us about private money." I said, "What's private money?" And Jeff says, "I don't know, but he says we can get a lot of it."

So, sir, I went off to the bootcamp, learned about private money. And I came back. I put my program together as to what I was going to teach other people about, teach other people about. And so I was able to raise over two million dollars in less than 90 days of when I first learned about private money. And you know, another big lesson I've learned, see like the 40 some private lenders that Carol Joy and I have, not one of them had ever heard of private capital and private money and private lending. None of them had heard about self-directed IRAs and how you can use that tool to move current retirement funds over, and actually lend out tax deferred returns or tax-free returns depending on the kind of retirement account.

So if any of your audience is actually interested in raising private capital, I know most of your audience is interested in possibly loaning out private capital, but if any of them are interested, I mean, I've never tried to talk anybody into doing a deal. I've never chased anybody. All I've done is put on my teacher hat, and taught people about what private money and private lending is. And then I end up with a good problem as the borrower, I got more money chasing me than I know what to do with, here in my little teeny tiny market.

But those are some of the lessons I learned from the adversity. I mean, it's like when the adversity comes along, I don't know, Dr. Phelps, who is credited with saying it, but in every adversity, and I'm paraphrasing, there's an equivalent seat of opportunity, or greater in the midst of that adversity that you're going through. And I thank God every day, for that adversity. Hey, listen, in our first 12 months, and you just said it a moment ago, in our first 12 months of starting to use private money, our business and our bottom line tripled, tripled in a market where everything's on sale. Well, the reason it tripled is I had all this private money in funding that I didn't have before. And all those bank-owned properties that came along in 2008 and '9 and '10, and along in that period, well, by having access to the capital, and not relying on the local banks and institutions, I was able to buy those properties because you had to have cash. There weren't nobody loaning money on them. So it was a big blessing in disguise.

David Phelps: You're so right. Adversity to opportunity is... When we go through the adversity, it's never fun. It's painful. But if we persevere, as you said, as long as we don't give up, the lessons we learned, the creativity it forces us to have, can be the basis for, as you said, a new model, a new way of doing business or at least another way of doing things, so you're not just a one-trick pony doing one thing. It's great when the market doesn't change, but the market's always going to fluctuate and change. And I think this is what we've learned over the years, those who have been in the markets, and gone through the dynamics, is you can't just focus on one model. You've got to be able to adapt and move with the markets as they move, and they will.

So let's talk about, Jay, from a lender standpoint, again, just like you, I do both. I borrow money, private capital, I've done it since I started 40 years ago because I learned very quickly, I didn't want to use the banks, too much constraint, too difficult, and limits my ability. So I had to do the same thing as you did. I had to get creative. So I borrowed money over the years, and then, also like you, I'll lend money again, typically out of self-directed IRA accounts, great place to lend money from. So let's talk about that standpoint, being that we both lend money, and a lot of my list wants to be a lender.

Let's talk about the dynamics there. And again, I want to dig down a little bit deeper with you. You know, you mentioned a market for private capital day today, yield range, interest rate return 8 to 10%. That's pretty darn solid return today. I mean, when you look at the other options, especially, well, I consider private capital lending a relatively liquid platform. I mean, that's pretty liquid. I'm not stuck with something like a equity deal that I have to hang onto if I don't want to, I can hang onto it.

But how do you make 8 to 10% work for you? I want to kind of understand from your standpoint, because it's got to work for both parties, the borrower and lender have to work together on a transaction basis that's a win-win for both. That's the only way it works. So how do you make 8 to 10% work for you? Where's the profit margins that allow you to do that? And what kind of terms are you doing with borrowing money at 8 to 10%?

Jay Conner: Yeah, so you're right. It's got to be a win-win for everybody. So from my standpoint of me borrowing the money, the reason 8%... And just to be totally candid, I pay 8% on larger amounts of money for like we use for purchasing property. I've got a lot of lenders that are relationship lenders that are more than happy to take a junior position, or a second position, because the relationship that we have in place. I'll pay 10% on what I call smaller amounts of money, like $30,000 for rehab money or whatever. But the only way that I can pay those kind of rates of return, is to buy properties that are deeply discounted. And typically I'm not going to be buying a property, particularly in this market, that's deeply discounted, unless there's going to be a major rehab involved, because if a major rehab isn't involved, then everybody wants to get retail, right?

David Phelps: Yes.

Jay Conner: So I buy properties all the time, all the time at 50% and less of their after-repaired value, right? So I'm able to pay a high rate of return. Now, the length of the note is typically going to be two years. Most of the time, I'm not going to need it for two years, because... But sometimes I do, we sell... Over the past years, we've sold a lot of homes on rent-to-own, and I do the business different than a lot of other real estate investors when it comes to rent-to-own. Most real estate investors, and I'm not knocking anybody's business model, I'm just stating fact, most real estate investors that sell on rent-to-own or sell using lease purchase, those are interchangeable terms, most real estate investors are going to leave those rent-to-own buyers to their own devices, to get their credit repaired.

And you and I know, Dr. Phelps, what is going to happen in that business model? It ain't going to happen. Maybe, maybe, three or 4% of them people will ever get credit-worthy. And the real estate investor will take a non-refundable option fee 5,000, 10,000, $20,000, and leave him on the—

Carol Joy and I just simply decided years and years ago... And I'm going to circle back to the length of the note, I'm really answering that question. We decided years and years ago, that if somebody's going to give me 5, 10 or $20,000, they really want to own that house. They really want a slice of the American dream. And with God's help, I'm going to do everything in my power to actually help them own that home. If it's a credit score problem, which most of the time it is, I'm going to require them to enter into my credit repair program.

And so, as a result, 82%, last time I checked last year, 82% of our rent-to-own buyers actually end up getting the title in their name. So I'm actually going to help them. Well, to do that, sometimes that can take from the time I buy a property and get it ready to go, it could take 12, 18 months or whatever to get that buyer ready to cash out. And I just don't want to have to extend the note with my private lender. So again, most of the time the length of it's going to be two years.

David Phelps: Hi, David here. I hope you've enjoyed today's discussion with Jay Conner regarding the use of private capital. Next week, we will continue the conversation and get more into the aspects of relationships, and how real entrepreneurs are the ones who can fill the void in the economic spaces that turmoil and disruption can cause, and how people can get their money involved in real estate, use the arbitrage that banks use in ways that are safe and secured, also how to get a copy of Jay's new book, Where to Get Money Now. I'll see you next week.

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