JOHN:
Guys, if you do more than a handful of deals, you are going to lose money. You absolutely are. All those clowns on the TV shows that say, get rich overnight, easy millions, dirty money, filthy rich, that's all a load of crap. Developing is really hard, it takes years, and economic conditions come and go. They change.

Interest rates spike. You could be a genius. You could be Bill Gates or Albert Einstein, but if you bought a property in 2019, you got screwed by COVID. Nobody saw that coming.

CORWYN:
Good morning. Good morning. Good morning, guys. Welcome to another fabulous episode of Exit Strategies Radio Show. I am your host, Corwyn J. Melette, broker and owner of Exit Realty Lowcountry Group, in beautiful, beautiful, how about we get that right, North Charleston, South Carolina.

If this is your first time listening to this show, you, sir, ma'am, and for a treat, because our mission here is very simple. That is to empower our community through financial literacy and real estate education. Guys, we are legacy building. That is what we do. I always got to give a shout out to those who listen to us so faithfully, and I really, really, really appreciate it.

The LeCues family listens in North Charleston. Pastor Vanderbilt Evans Sr. and his wonderful bride, Ms. Sandra Evans, who listened faithfully in West Ashley. Thank you all so much.

My mama out there in Moncks Corner. Y'all out there in Hollywood, what you know no good. And my folks in Marion and Mullins, thank y'all so much for tuning in. Guys, I'm super stoked and excited about today because I have a kindred spirit in the room, all right? I have someone who fancies and loves real estate and loves development and all those things that make a difference in our communities by empowering people to build and create wealth. So, I don't want to take any thunder from him, but what I do want to touch on is this.

We understand in our business that the answer to the challenges that we may see, face, or otherwise believe exist in real estate and owning investment property and things of that nature go far beyond interest rates, far beyond just, if you will, the housing market. It involves decisions that are being made long before construction ever begins, zoning, local regulations, development policies, priorities for communities, and a willingness to create more opportunities. So, after four decades, four decades, y'all hear me in that, in commercial real estate development, **John McNellis** has seen firsthand how these behind-the-scenes items or issues or whatever you want to call them, these forces at work shape our communities, influence pricing and affordability and determine how people can build wealth in this country. So, today we'll discuss some of the politics, if you will, of real estate that most people never see and why real estate has always been a get-rich-slow business. So, I want to introduce to you all John McNellis is a 40-year real estate commercial developer, founder of McNellis's Partners, and author.

Yeah, he wrote something, y'all, making it in real estate, which is now in its third edition and is used as a textbook in university real estate programs. He began his career as an attorney before transitioning to real estate development, eventually building supermarket-anchored shopping centers throughout Northern California and navigating multiple economic cycles, policy shifts, and changing markets. He's known for his candid and practical insight, and John brings a wealth of knowledge in his decades of experience on how real estate policy and long-term thinking intersect to create opportunities and build lasting wealth. So, he'll join us today to talk about how these things are shaping our communities now. So, John, welcome to the show.

JOHN:
Thanks, Corwyn. You gave me way too much of a buildup.

CORWYN:
Well, look, I appreciate it. I told you I didn't want to steal your thunder, but I did want to roll some of it in. How about that?

JOHN:
We're going to lower expectations just a little bit.

CORWYN:
Thank you so much. So, John, if you don't mind, give our listeners a high-level overview of who you are and what it is that you do.

JOHN:
Corwyn, you just did that, but just to repeat, I started out, if you put your thumb and forefinger together, this was my net worth when I started out as a kid. It's closer to 50 years ago now. Got out of college.

I was a journalism major. One of the smart moves I made was deciding I don't want to be a journalist. Went to law school, got out of law school, went to a fancy law firm in San Francisco, found out not almost overnight, but within a few months, that I hated litigation, that it's nothing like the movies. It's not Perry Mason getting innocent people out of jail. It was terrible.

But the firm had a good real estate practice, business practice. After a couple years, they let me shift over to that, and I loved it. It was fun helping people buy houses, hotels, office buildings, build industrial buildings. So, I was doing all of that, the fancy paperwork for big deals. Meanwhile, on the side, I got the bug and I started doing my own little real estate deals.

Bought a house, a duplex actually, for about $25,000 when I was 24. Got really lucky. It was in my hometown. Not a hometown to brag about, by the way, but it was a rising market. Painted it, put on the petunias on the outside, sold it a year later for almost $60,000.

Took that $60,000, traded it into a fourplex. Again, the market was still rising. I was still lucky. Sold that a year later for $120,000. So, my initial $1,500 down payment on the $25,000, that became $90,000.

Folks, we can stop right there because I've never had a return that good ever since in my career. I was doing little deals on the side and then doing large deals as a lawyer. I teamed up with one of my developer clients and we opened our first shopping center here in Northern California, a little town called Healdsburg, which is in the wine country. About a 100,000-foot center. It has a Safeway in it, Bank of America, Wells Fargo.

It's usual kind of neighborhood shopping center. Guys, we still own it today. That's what got me launched in my shopping center career. I've been doing shopping centers here in Northern California ever since.

CORWYN:
Wow. So, John, let's talk about, there exists within the industry as a whole, and obviously this impacts everything residential, commercial, industrial. There's the politics, if you will, of real estate that people don't understand or otherwise aren't prepared for. So, zoning, regulations, and local policies, how are these things impacting and affecting, if you will, our local markets?

JOHN:
That's a great question, Corwyn, and I think California is ground zero, but I think this has gone all the way to South Carolina because I have good friends in South Carolina and Greenville and we talk about this. If we're lucky, if we're proposing a new project, a ground-up development, if we're really lucky, the best we encounter is kind of benign indifference or bureaucratic indifference. The city says, yeah, okay, maybe we'll think about it.

But more often than not, we encounter open hostility. We encounter neighbors who say, gee, we like this field. It's been vacant for 20 years. We want to use this field as a park. And I say, wait a second, folks, this is private land.

We have the right to develop it. So, I have found that the best deals require a lot of work with the community if we want to come in and build something new. Now, as an aside, if you don't want to do the same level of political struggle, it's much easier if you're doing a major renovation of a center or of a property because it's already there, particularly if you buy like a rundown shopping center, in my case, or an industrial building. You buy it and you want to rebuild it. There's much less in the way of resistance because you're not plowing new land.

In my experience, the hardest is when you're kind of on the edge of development. You know, the town wants to stay in a little circle of a couple miles, but whoops, we need to grow. We need to add housing. The greenfields development is much harder.

CORWYN:

So, let me interject this question because that tracks obviously from my understanding, observation, and experience over the years that I've done what I do.

But on the other side of that, John, is that, and I say people don't understand, but let's speak to what sometimes appears from the professional side, if you will, of the coin, the lack of understanding as to how these things negatively or may negatively impact, I don't want to say something will and it doesn't, but may negatively impact pricing or other things in an area because real estate is about supply and demand, yes?

AD:
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JOHN:
Yeah, absolutely.

I think the way to create affordable housing is just to take all the restrictions away from us, and I'm not a home builder, but for the home builders, particularly here in California, there are so many regulations and so many restrictions that it's very difficult to build housing at a reasonable rate. If you were simply to say, here, as long as you fit within the parameters of these requirements, you fit within this box, you can build it. Without going through this multi-year process of approvals, housing would become much cheaper. Now, just as an aside, if one of your listeners is trying to get a controversial project approved, I think the first thing you have to do and that's not easy to do. What I recommend, let's keep it simple.

You've got a lot that you want to build 10 houses on, and the neighbors are going to oppose you. What you try to do, you go to the city first, you figure out who runs the city. I don't mean to be flippant about this, but usually, it could be the mayor, it could be the city manager, it could be that the city council has all the power, or sometimes it's once in a while, it's the planning commission, which is a level below. You figure out who's the decision maker in the town. You go to see that decision maker and you say, Mr.

Mayor, this is what I want to build. I want to know that this is something that if I can build support, you'll support it. The mayor says, okay, yeah. You get a green light at the top, but then you say, I'm not going to start at the top. I'm going to honor the system.

I'll start at the bottom the way I should. Go walk into the planning department, talk to your assistant planner and say, here's my plan. I want to start with you. Then meanwhile, you do the outreach to the neighborhood. This is the hard part.

I think I probably gained 10 pounds having coffee and donuts with neighbors. You invite them all and you have the whiteboard or the big sheets of paper and you say, folks, I want your opinion as to what we should do with this property. Of course, someone will say, leave it just as it is. My dog likes to walk there. You say, that's really nice, but that's not going to help me or the city or you or any of us.

You try to get folks to coauthor the deal. I think you have to be honest and open to suggestions, but at the same time, you're trying to lead the community to what your vision is. I don't think one big house is the right approach for this project. We really need more housing. Rather than having one house on 10 acres, which is what some of the neighbors want, I really think we ought to have 20 on half acre lots, 40 on half acre lots because we need to create more housing.

You try to get the neighbors, some of them to come along with you. Then when you go to your first public hearing, you can tell that the planning commission, I've met with the neighborhood. I've listened to what they have to say. Guess what? I actually have some supporters here. One thing even that the dumbest politicians figure out pretty quickly is that it's a lot easier to get opposition.

You can get opposition instantly. It's much, much harder to get supporters to come out. Even the dumb politicians will say, wow, this guy's got 10 supporters and then there are 20 opponents. The supporters will outweigh that, but you need real supporters. You can't bring your mother and your dog and the contractor.

You've got to get people who have no financial stake in it, do-gooders. They say, this is the right thing for the city. I like this man's vision. Again, it's not easy. Corwyn, I had one deal here in Palo Alto, which is a suburb called San Francisco on the peninsula.

You're not going to believe this, and I don't have any more of these deals left in me, but from the time I first saw it until the time of the grand opening, it was 18 years. It just took forever. It was a very controversial project, but we had to build that community support slowly and slowly and get defeated and come back and get defeated and come back. Gradually, we got it done. Now, everybody says, why did we ever oppose this project? It was great.

CORWYN:
That is a perfect segue there, John, into the get-rich-slow business, which at times is real estate. Many people look at, on the residential side, people look at real estate office oftentimes as a quick method in order to be able to create wealth or make money, but those who really understand the industry understand it takes much longer. You just talked about the deal that took 18 years to get to a grand opening. What do you see are, and if you don't mind, give some

experience in this, one, dangers of chasing a quick profit, but number two, you've done this for decades, so you've seen market cycles. What has that taught you about building wealth in this particular arena?

JOHN:
I could unpack that lots of different ways, but one thing that I've learned, we've done maybe 100 deals over 45, 46 years, so a couple of deals a year.

First thing, here's my public service announcement to your listeners. Guys, if you do more than a handful of deals, you are going to lose money. You absolutely are. All those clowns on the TV shows that say, get rich overnight, easy millions, dirty money, filthy rich, that's all a load of crap. Developing is really hard.

It takes years, and economic conditions come and go. They change. Interest rates spike. You could be a genius. You could be Bill Gates or Albert Einstein, but if you bought a property in 2019, you got screwed by COVID.

Nobody saw that coming. So my one point is about getting rich slow is you've got to be cautious, and I made this mistake when I started out. If you go from a duplex to a four-plugs to 32 units to if each deal is larger than the next, and if you find that you're going to lose money, it's kind of like you're sitting at a blackjack table, and you're winning one hand, and you're keeping the winnings out there, and the next hand, and the winnings out there on the next hand, sooner or later, no matter how smart you are, you're going to get wiped out. So one of the lessons that I've learned is you pick the level at which you're comfortable, and let's say it's a million-dollar properties. Let's say you're doing McDonald's at a million dollars each.

Well, if you do one of those a year, and let's say you make 100,000 on each one at a million, then sooner or later when you hit the 10th one where you lose a little bit, you're okay because you've put away the money on the prior deals. But if you go from a million to 2 million to 4 to 8 to 12, and I did make this mistake when I was a little bit more than 30, you get wiped out on that final time. So build, do larger deals, but do it cautiously. Don't jump too much. Don't go from a duplex to a 100-unit building.

There's the one little take-home advice. And then be careful. Leverage is your best friend. Leverage is your wild and crazy best friend. And by leverage, I'm putting a big loan on a property and a little down payment.

But that crazy best friend, he's great in the fun times, in the bull market, but he kills you in a down market. Property values in the Great Recession, Corwyn lists, they drop 30, they drop 40, sometimes 50%. If you had a 70% loan on that property, you were wiped out. But if you were cautious, you kept your borrowing, let's say 50% or less, it hurt a little bit, but you didn't lose the property. Anyway, so low leverage.

You could say punching in your weight class. If you're a welterweight, you don't want to try to move up to heavyweight because you can't take your punch with you.

CORWYN:
That makes sense. So I have a colleague, his wife was a former pageant winner. I forgot, she might've been a state title, state title, some miss, whatever.

And he always says this thing, John, about he outkicked his coverage. So essentially what I just heard you say was you don't want to outkick your coverage when it comes to what you're leveraging.

JOHN:
Yeah, you don't want to outkick your coverage. And you want to be mindful of the fact that, and you don't want to be too hard on yourself. Think about the stock market.

The best guys in the stock market, Warren Buffett, whoever, they don't win on every stock. They'll win obviously far more often than they lose, but they'll have losers. So folks, if you're doing deals, don't be too hard on yourself. When you do lose, pick yourself up off the floor and move on to the next deal. But just don't go all in on a deal so it can kill you if it does go wrong.

CORWYN:
That's fair, very fair. So that's another good place for a slight turn, John, which is surviving and winning in a down market. We hear the word or hear the phrase downturn, the R word, recession, down market, any of those things, automatically we look at it as being a negative time period. But reality is that there's a tremendous amount of people that win in down markets. That's when, quote unquote, where the rubber meets the road and many people make their wealth during those seasons.

So what lessons have you picked up during those times and what many would consider to be a down market and what market disruptions do you believe create opportunities for people?

JOHN:
Another great question. I told you earlier, we've done roughly 100 deals over roughly 45. So it's about two deals a year. But when the market was super hot, bull markets are raging, Corwyn, sometimes we'd sit on our hands for one, two years and we'd just say, the prices are too high, they're not making any sense. So we just conserved our cash.

Then when the market turns, when suddenly the lenders are out of the market, when the equity is not there, then we have the dry powder to go ahead and say, okay, so in the great recession, 2010, 11, 12, we had a field day. We were picking up properties at 50 cents on the dollar because we had maintained the control not to go crazy in the up markets and not to have that wild, crazy, highly leveraged best friend. I think the time to buy, if you can, is in a down market. But that requires a lot of, what's the old expression, intestinal fortitude. It's a little hard when things are going down, you say, gee, is it going to continue going down? But you got to trust

your instincts and say, look, the replacement cost on this building is $200 a foot and I can pick it up at $100 a foot because of the distress situation.

You have to trust your instinct and do it. Another point just to make is that you really can't make real money without taking real risk. This is not a risk-free business. Again, I would say most developers over the long term, you don't make it. I'm pretty sure of that.

It's a hard business, which is why in my book, which is called Making It in Real Estate, Thriving as a Developer, the first half a dozen chapters, I urge the readers, keep your day job, keep your day job, keep your income, and do real estate on the side. Buy that house, buy that terrible house in a great neighborhood and fix it up on the side. Do it nights and weekends. Instead of golfing or joining the bowling league, make fixing up houses your hobby. Much safer approach.

CORWYN:
That's good sage advice, John, because oftentimes we're a society now where sometimes, and there's nothing wrong going all in, but you got to go all in at the right time, if that makes sense. It's hard to gauge that, obviously. John, let's touch on building communities and wealth that last. This is what you do. This is the arena that you play in or participate or work in.

Why does responsible development and long-term thinking matter?

JOHN:
I'm not quite sure where you're going with that, but I think as much as everybody hates development, particularly, in fact, literally across the street from me here in our little town, there are guys who are pounding away on a small office building. When it's your peace and quiet that's being upset or your traffic that's being worsened, you hate it. We need development. We need growth. Everybody acknowledges it.

It's just like low-income housing. Everybody wants low-income housing, but they don't want it in their neighborhood. That's the conundrum. Responsible development, doing a good project, is something that you can be proud of and the city and everybody else can be proud of. I think it's really important.

I'm not sure how much more I can say about that, but I'd like to say that we have done that. The project that took me 18 years, I'll give you an example. It was on four and a half acres, and it was a broken-down supermarket of 13,000 feet and about shops, 2,000-foot shops of another 12,000 feet. The four and a half acres had 25,000 feet of retail. This is in a dense suburban location.

It took us 18 years, but at the end of those 18 years, we had built 37 single family homes, that same 25,000 feet of retail, plus a 14-unit super low-income apartment project on it. We preserved all the retail, we brought in the low-income housing, and we added 37 new homes, and which is why the neighbors fought us because, well, we don't want this density. But then at the end of the day, when it's this beautiful project, everyone almost scratched their heads and

said, well, why did we? Actually, I wouldn't admit that, but what they should have said was, why did we fight this so hard? I think that is a perfect example of responsible development infill and creating greater density so you're not, we got farmland on the edge of the town.

CORWYN:
That makes perfect sense. So John, so I want to touch for a moment on the book and then kind of get us to, because we're quickly getting to the end of today's show, but your book is used as a textbook by ULI, if I remember correctly.

JOHN:
Yeah, well, not only that, ULI was a publisher for the first two editions. So I write a monthly real estate column for the San Francisco Business Times and often the Registry Magazine. So I've been doing that for a number of years. And then about 11 years ago, someone said, hey, John, you should turn this into a book. And I did.

So the first edition came out in 2010 called Making It in Real Estate, a skinny little book. 2020 came along, COVID, and we were all sitting on our hands. There wasn't much to do. So I wrote the second edition. And then constantly writing, constantly talking and asking questions and being asked questions, just came out with a third edition.

It's called Making It in Real Estate, Thriving as a Developer. And I've got to tell you is, well, it's required reading at Clemson. I've lectured at Clemson. I'll be probably lecturing at Clemson again in the fall, but Stanford, Berkeley, Cornell, Vanderbilt, Georgetown, Georgia Tech, it goes on and on. This is where it'd be nice if I had a manager or an agent to brag about it.

But the book really is considered the best book on how to develop it out there. Again, it's McNellis, M-C-N-E-L-L-I-S, Making It in Real Estate. You can pick it up basically online, Amazon. There's an audio version of it, which I narrate. And what more can I tell you?

CORWYN:
Look here, I've already put it in the card already.

Look here, I'm all over it because I've completed the Ready program under ULI. So I've seen your works before. And so I'm super excited for this read because this one I didn't know about, but I'm super excited for this read. So I'm all over this.

JOHN:
I'll send you a free copy.

CORWYN:
Awesome. So John, we got to get to today's show to kind of wrap us up today. You know, I want to kind of come back and ask you this legacy question because you've done this for over four decades. So what is that one lesson you think that everyone should understand about not only

homeownership, but building wealth, leveraging real estate, such as what you've done for the last few decades? What is a takeaway for you in all of that?

JOHN:
Well, money isn't everything. I was never in it for the money.

When I decided to, I left law to get in development, it wasn't, gee, I want to be rich. It was, gee, I want to do something that's more fun than practicing law. And Corwyn, my yardstick for measuring success was, am I making as much as a developer as I did as a lawyer? And I would try to keep in touch with the guys who became partners in my old law firm and say, how much are you guys making? And I'd say, whatever. And I'd say, okay, then I'm doing okay. So I would say, this is a little bit off the track, but business, I love it.

I love doing deals. It's kind of like solving New York Times puzzles, but it's not everything. Life is more important. And I think realizing when you have enough and so many people I meet, so many of the richest people I meet, they never seem to have enough. They always want more and more and more.

And I figured out long ago that I have enough, which is why I can go from making, let's say, more than a reasonable amount of money practicing law to making almost nothing, but enjoying myself writing books because life's so much more than that business and making money. I guess that would be like, it's a little counterintuitive for a business guy, but there's my takeaway.

CORWYN:
Well, good deal. So John, thank you so much for being with us today. And I'm going to give our listeners a few wrap ups and takeaways here, but I appreciate you taking time out of your busy schedule to be on the show with us on today.

JOHN:
My pleasure.

CORWYN:
So for our listeners, guys, look here, here's your action item. This is what you need to remember. Remember that development, housing, affordable housing opportunities for investors don't happen by accident. They are shaped by policy, by planning, and most importantly, by long-term thinking.

So understanding those forces can help you make better decisions and recognize opportunities that many others miss. Now, my takeaway from John's interview today, real estate remains a get rich slow business. The people who succeed are often the ones who understand the bigger picture. They stay patient and keep moving forward, even doing what we consider to be uncertain times. So my closing thought for today, for all of you, the future of home ownership of real estate investing depends not only on the markets and rates, but also on the decisions that

we make within our communities today about housing, about development and otherwise creating opportunities.

For those who seek long-term stability and wealth, understanding all those forces and how they work together may be just as important as understanding real estate itself. So I wanna thank you all for tuning in today. John, again, thank you so much from the bottom of my heart for being part of the Exit Strategies Radio Show family. For our listeners, y'all know how I feel. You know what I say, you always put the two of those things together and I give it to you this way, which is to tell you that I love you.

I love you. I love you. And we're gonna see you guys out there on the streets.