NEAL BAWA – MULTIFAMILY MARKET TRENDS

Podcast: Wheelbarrow Profits Podcast
Podcast Hosts: Jake and Gino

Announcer: Welcome to the Wheelbarrow Profits Podcast where you get multifamily investing made real. Learn from top players in the real estate investment world as they share their secrets with you and discover proven strategies on apartment investing that **actual** work. Now, to your hosts, Jake and Gino.

Jake: Hello, everybody, this is Jake Stenziano, host of the Wheelbarrow Profits Podcast, here we my co-host, the multifamily mentor, the coach, the chef, the father of six, the bestselling author, the G-daddy, Gino Barbaro. Gino, how's it going?

Gino: Mr. Yacky Boom-Boom, I'm doing good today, bro, how are you doing?

Jake: Man, I'm doing great. It's the day after Labor Day. We had a super-productive day. We got contracts getting signed today. We got a bunch of stuff in the works for construction and got brokerage stuff moving, so I'm at my best. I'm at my most satisfied when I'm being productive and I'm moving the needle. Today, sir, I am moving the needle. How are you doing?

Gino: I can't top that, my friend. Had a nice day yesterday, enjoyable, weather is great down here. I got another couple months of summer, hopefully, and I'm—

Jake: You got two or three months. I got a month and a half, you got like three, so you got nothing to complain about. But anyhow, this is where we would normally plug something to pay the bills because look, you know, if you look around, the bills are expensive in this place, so we got to pay the bills, but now for our listeners, we only showcase products or services that we approve of or use in our own business. This time we're going to tell you about something of ours specifically, our Wheelbarrow Profits Community G Pop Of Funk. You want to tell the listeners a little bit more about it?

Gino: Mr. Yacky Boom-Boom, as you well know, we've been here working hard at growing the community of likeminded investors and our results have been pretty incredible. We're looking to grow this amazing group of guys and gals that we have out here. What we're looking for is those who want to follow our proven framework , manage written, financed right. Leverage our connections, education, and mentorship as ways to take your business to the next level.

Jake: If you're interested in finding more about how you can be part of this amazing community, apply to work with us at JakeandGino.com/apply.
All right, enough shameless plugging. Today's guest is Neal Bawa. Neal is the founder and CEO at Grocapitus Investments, a commercial real estate investment company. Neal sources, negotiates and acquires commercial properties across the United States for over 200 investors. His current portfolio contains over a thousand units.

Without further ado, Neal, welcome to the show.

Neal: Thank you so much, Jake, and thanks, Gino. Thanks for having me on the show. I'm very excited to be here.

Jake: Hey, we're really excited to have you. You know, you've been in the game for a little bit now. Tell us about how you actually got your company started and what that process looked like.

Neal: Well, very different from most people, right? I'm not a real estate guy. I haven't done loans and flips and those sorts of things. I'm a technologist. I'm a core technologist, a software engineer and a data scientist that basically got into this through my work. I was working and was a partner and a shareholder at a company that was a technology education business and I needed to build large classrooms. Eventually, we decided that instead of leasing offices and then knocking out walls and doing those kinds of things and having to fix them when we left, we're going to start building our own campuses.

In 2003, I had a chance to work with my CEO, a brilliant man, to actually build our first campus, which was a 27,000 square foot shell that we chopped up into about 30 classrooms and a whole bunch of other administrative areas. That really got me thinking about real estate.

Then after that, we filled up that building and by 2006 or '07, we needed another building and we bought the building behind us, but we actually didn't have all the money to buy the whole building, and so we had a chance to actually condominiumize or break it up into pieces and sell them off to individual investors and then rent them back as the business grew, rent that back from them. That was a really good experience, so I learned a lot there with these two buildings and really got the real estate bug that way.

But having said that, even though I started with commercial, which is unusual, right? Most people don't start with commercial. I went backwards, so I did single family, about 10 single families in California. I then ran out of loans, refinanced, got my wife's name off, went to Chicago, bought ten triplexes, ran out of loans for her and then said, "Okay, what the heck happens when you run out of loans this way for single family? There's got to be something more and the answer was multifamily and so I started to passively invest with multifamily and I was one of those curious George's. I was running my technology business, which I knew we were going to sell by 2012 or 2013, so we had a two or three-year exit plan and I didn't want to go back in tech after that. We think we work hard in real estate, well, check out technology, right? Everyone is working 12 hours a day, not 5 or 6 and so it's a very stressful environment and I wanted to get out of that and so I was passively investing my money with all these multifamily syndicators and slowly picking up what they were teaching.

I started to take all of that learning that I had from a dozen different syndicators and I started to teach that in a Meetup group at my school. I had these huge classrooms, so I started basically creating Meetup groups and putting them together and people loved it because a classroom is the perfect environment for a Meetup group, right? You've got all the internet set up, you've got the projectors, you've got the desks and tables, so people can be writing. People really loved it and that Meetup group has now grown to be the largest apartment multifamily group in the U.S. with about 4,000 members.

Gino: That is awesome.

Neal: No, it just kept rolling.

Gino: Why multifamily? Why didn't you choose self-storage or one of the other asset classes?

Neal: Well, let me give you an honest answer. To be honest, when I started multifamily, I didn't know that there was an asset class called self-storage.

Gino: Okay. [Laughs]

Neal: And I think that if I did, I probably would have looked into it and tried to figure out which one of these two work. I might have probably still picked multifamily. I like the size of the market. It's enormous. Last year it passed office as the largest real estate vertical in the U.S., so it's now number one.

I like the fact that there are so many knobs that I can tweak and so many things that I can do to optimize, whereas what I've seen is, I own a storage facility in one of my projects, it's in Utah. There's not that many buttons that you can push for efficiency. There's just five things that you can do.

Whereas with an apartment complex, there's dozens and dozens of ways that you can optimize NOI, dozens of different ways that you can cut your cost. There's so many pieces to it.

I also love the fact that cap rates are lower. Why is that? Well, at 6 cap, a dollar that I produce in NOI becomes $16 on exit. At 8 cap, it only becomes about $12.50. Why would I want to not be in an area that was low cap because every dollar that I'm generating is getting higher multiples.

Gino: That is awesome. I had the honor and the pleasure and the privilege to sit with you a couple months ago in Atlanta and you enlightened me on why multifamily has been just a boom in the U.S. If you remember that conversation, can you go into that a little bit with macroeconomics, with money coming from Europe and all over? It was really an awesome—

Jake: Gino, did you have too many margaritas?

Gino: No, I had none. I should've had a couple and I remember everything he said with the flow of money, with the interest rates in Europe. I think this is really important for the listeners because everyone is always asking me, "Why is multifamily booming? When is it going to end?" Maybe it won't end, maybe it will pause and continue to go. You have to look at it from all over and you articulated it well, so I'd like to see if you can share that with the listeners.

Neal: Sure. I'm surprised you remember it, despite all those margaritas, but here is my belief.

Until 2008, real estate followed certain laws. You can call them the laws of interest rate or the laws of cap rates. More or less, real estate followed those laws. Since 2008 though, it doesn't appear to follow those laws. Most people are like, "Why is this happening? Is this a one-time thing? Is this a short-term thing? And then the laws of cap rate and interest rates will apply? When interest rates go up, cap rates go up?" That hasn't happened so far.

Since 2016, early 2016, we've been raising interest rates, so they've been going up quite a bit. Right now they're—the 30-year is about 4-1/2, even though it was at about 3.25, so that's quite a bit of an increase. That's a big, big increase.
In the past, what would happen is that when you had interest rate increases like this, you would have cap rate increases. What we're seeing is cap rate compression quarter after quarter after quarter. Now, it's slowing, right? In the very last quarter, the second quarter of this year, we haven't had third-quarter results yet, cap rates have once again declines. So, they once again compressed but they compressed by the smallest amount that they've done since this cycle started in 2012.

There is some impact but it's weird that throughout this period of interest rate increases, we've seen cap rate compressions. Here is my belief and this has nothing to do with real estate and everything to do with macroeconomics. Since 2008, the Federal Reserves of the world—not just the U.S., so we've got a central bank and then there's ECB, there's JGB, there's all these banks that have flooded the world with massive amounts of liquidity. It's not real money, but it's liquidity. We plugged in $4 trillion, the ECB plugged in billions. The Japanese Central Bank continues to plug trillions of dollars into the world as liquidity.

This liquidity is trillions and trillions and trillions of dollars and it's money that's sloshing around the world looking for yield. Wherever it can find yield, it goes, even though the cap rates there may be ridiculously low. The money is going into the Hong Kong Market, it's going into the London Market and it's going into the U.S. commercial real estate market.

We've had months where in a single month, $40 billion—that's $40,000 million—has entered the U.S. real estate market. While it has exited London and it has exited the Hong Kong market, it hasn't exited the U.S. Why? Because we are the best looking pig in the pig sty people. We provide real returns.

If you look at every major bank in the U.S., you look at the Eurozone, which is one bank, so it's 29—it's 29 countries but one bank—you look at Japan, where is the yield? When you buy a 10-year Treasury bond, the only place in the world where you get yield today is the U.S. of A. Our 10-year Treasury bond just crossed 3%. That may not seem like a lot of money to real estate investors, but to bond buyers, it's a huge amount of money. We have a market that actually produces money and there's all this money in bonds nationwide, worldwide, that isn't producing money. When you buy a 10-year Treasury bond in Switzerland today, you pay for that privilege. You pay to buy a 10-year bond. You give money to the government for 10 years, they charge you for it. Same thing happens in Germany. Five-year bonds, negative.

When you have huge amounts of negative bonds—and the world is mostly composed of bonds, by the way, the stock market is smaller than the bond market, the worldwide bond market is about $68 trillion. Now you have a big portion of that, the majority of that, at 0% yield and all these pension funds are desperate. They're trying to get yield from somewhere and now they're beginning to look at risk-based assets, real estate, risk-based assets. What they're doing is they're investing that money into risk-based assets and the largest injection of all is in the United State of America. The biggest piece of that is going into our stock market and the second largest piece is going into our real estate market.

To those guys, when they get a 6% return on real estate, on a 4-cap property or a 3-1/2-cap property, they're happy because they were getting 0% in bonds. Now you have an environment that is unprecedented. We have never seen this kind of an

environment before where this enormous amount of money that is so huge compared to the U.S. commercial real estate market, which is $2 trillion. We're talking about $60 or 70 trillion. Most of the world's value being at 0.

And then when they come in here and they start buying our real estate assets at ever-lower cap rates, it still makes sense to them. The yields make sense because they're looking for 6, they're looking for 7. It doesn't make sense for us, but it makes sense for them.

This is why we continue to see cap rates compress while interest rates go up. This is a very unusual situation and people might think, well, it's going to resolve itself because we're raising interest rates. Not really. Go check how many trillions of dollars of liquidity has been created by Central Bank since 2008 and how much has been withdrawn? The answer is less than 1% has been withdrawn and all of that 1% is our Central Bank. The Federal Reserve has withdrawn a small amount. I think altogether, they've withdrawn $100 billion out of the $4 trillion that they created. Has the Eurozone withdrawn any money? No. Has Japan withdrawn any money? Has China withdrawn any money? Has India withdrawn any money? No. That money is still there, trillions of dollars looking for yield.

To me, it's going to take a decade or longer to withdraw it, which means that the apartment market in the U.S. could be perverted—if you want to call it that—because it's really a perversion of our market fundamentals of our cap rates and our interest rates and our rules of thumbs. Well, that's going to continue on until that money is withdrawn. I don't see it being withdrawn for decades.

Gino: So, that would lead into my next question. Couple that with people that are renting, the demographics changing, affordable housing not coming up to the levels that it should. How much longer do you think this can go? Because I can see this going for the next 5 to 10 years without a run because you need rental units. People are not renting. You have W2s that are becoming 1099 employees. They are transitioning into apartments. I'd rather live in a beautiful A class apartment next to a town center, not have to worry about a mortgage, pick up a year later and move somewhere else. So, where do you see that going long-term?

Neal: I see it continuing for 10 years, but I do think that it's going to get bumpier than it's been in the last 5 or 6. There is no doubt in my mind that there are sectors of multifamily that are overvalued. In New York today, every brand new Class A apartment comes with two months of free rent. Two months. Why? Because they overbuilt.

There's a number of others that are overbuilding. Northeast Atlanta is overbuilding. Parks of Houston are overbuilding. Parts of Denver are overbuilding. What we are seeing is individual markets that are overbuilding, so buying in those markets is becoming riskier. It's going to be very up and down.

But to me, I think that it keeps going to 10 years or more. I want to give listeners a website that is mind blowing, that actually explains this impact. It's www.WeAreApartments.org. That's W-E-A-R-E, WeAreApartments, with an S, dot org. Go in there and start clicking on every metro. Pick Phoenix and you'll notice Phoenix is a great place to invest in multifamily for the long run. Right now? Yes, Phoenix is also beginning to overbuild and do all kinds of weird things, but if you're looking to hold for more than five or six years, Phoenix is a great market. So is Atlanta, so is Orlando.

But there are other markets that are not so great. Pittsburgh, for example, is not a good market because when you look at the supply and demand over the next 10 or 11 years, the demographics that Gino is talking about, those demographics are not strong in Pittsburgh, but they're incredibly powerful in Phoenix, in Atlanta, in Orlando. Las Vegas is one that has incredible demographics benefits. Clark County, which Las Vegas is in Clark County, is the second-fastest-growing county in the United States in terms of population.

We see the population moves and at the same time, we see the homeownership rate going down. I have three studies on my website, it's a www.MultifamilyU.com/toolkit. That's MultifamilyU.com/toolkit. I have three different studies there.

The favorite one is one from the University of California and it talks about why is the home ownership rate declining? They have three scenarios, the good, the bad, and the ugly. All three scenarios are showing drastic declines in home ownership over the next 10 or 12 years. Millennials can't pay because of their student loans, the Baby Boomers, they've just come through the 2008 crash, which has permanently affected their psyche, so they're not downsizing to homes, they're downsizing to apartments in the city, good looking apartments, Class A apartments. These kinds of trends or mega trends, mean that the homeownership rate, which has temporarily blipped up and people are declaring victory because over one year we have a positive growth in the homeownership rate.

No. Take a look at these studies, all of them clearly show homeownership rates declining in the U.S. and that is incredible for multifamily guys like us over a 5 to 10-year timeframe. The 1 to 2-year timeframe? It's going to be bumpy.

Jake: Neal, it's bigger than that. It's bigger, it's deeper, and it comes down to lawnmowers. Guys just don't know how to use tools anymore. They can't tote the lawnmower around, so they relied on folks to fix the stuff up. So, when they go and get themselves in a home and something breaks, it's, "Oh, shit," or "How do I do it?" I'm labeling this the John Wayne effect, okay? There's no more John Waynes out there and that's driving this, okay? It's under the radar, but there's something there, I'm telling you right now.

Neal: I think you've picked up on something key, that people, you know, traditionally the cost of homeownership was lower because people were fixing their own stuff, they were even building their own stuff, not just fixing. The generation that came after me just does not do it. My kids do not know how to pick up a screwdriver and pick up something basic.

Jake: Right.

Neal: And so for me, yeah, I mean, I think that's going to affect their psyche, their attitudes throughout their life.

Gino: Well, two things: Homes aren't ATMs anymore. Number two, the principle pay down that you have in a house at the end of the year is down because an AC unit has changed, or a deck is repaired, or a driveway is sealed, or whatever. So, you can't look at it as an investment.

And the other thing is, like we said, the 2008 really affected people's psyche about what homeownership is. It's not the American dream anymore. I think the American dream is the lifestyle, being able to work whenever you want to, picking up your laptop, going to Starbucks and hanging out and working from there and if that means I can go to Knoxville one year, I'm going to go to Nashville the next year and hey, what about New York for six months in an Air BNB or whatever it is? That is, I think, more important to people nowadays, I think, than it was 10 or 15 or 20 years ago.

Neal: Absolutely. Mobility is absolutely key. The Millennial generation, especially the technology Millennial generation that makes a lot of the money, considers mobility to be extremely important to them. No previous generation has ever really thought of mobility as being so key and homeownership is an anti-mobility mechanism. It prevents you from moving and these people want to move.

What they've seen is it's almost like you've tasted blood once, right? Now you don't want to go back. You've tasted the beauty of having that Air BNB lifestyle where you're basically working from home, making $70 an hour in a technology job, well, the tech jobs for the last four decades were what was supporting homeownership. Some of these people now realize that homeownership can be a trap.

In my mind, homeownership is equity growth, so I don't necessarily agree with you there, Gino. I think that there's massive amount of equity that homeownership creates, but my opinion doesn't matter. What matters is the opinion of dozens, of millions of Millennials who all of a sudden feel like homeownership is just not as important as it was to people 20 years ago and their opinion matters.

Gino: Neal, like you said though, when you have a student debt, you're already paying a mortgage before you even buy a house. When you have a car payment,

when you have a $200 cell phone bill, you add all those things up and then all of a sudden the mortgage comes along also, it's like crap, man. That's got to be painful

Jake: And then there's a roof leak and then the washer goes down. Like whatever it is, these things happen so it stacks, you know?

Gino: Yeah.

Jake: The only thing I'll challenge everybody on in this is that the area that guys like Gino, Neal, and myself, who are sitting in homes right now, we could potentially get hurt simply due to supply and demand down the road. If the supply of homes is greater than the demand, because people are less interested in them, I think that's an area we could get hurt. I'm not saying that's real or a thing right now, but down the road, if it does continue on and the demand for homes is not as great, the actual traditional home, that's where it could get interesting. But, you know, we'll see.

Neal: Well, here's my feedback on that. In the last 10 years—and actually, that's not including 2018—look at 2008 to 2017, the net number of owner-occupied homes created in the U.S. was zero. Zero in 10 years. We did build a lot of homes. Now, we built a lot less than we built in the decade before, obviously, because of the crash. So, we were building at maybe 40% of the level that we were building before.

But if net occupied owner homes are at 0, where did all of those homes go? The short answer is, they got absorbed into the market place because the existing ones, not brand-new ones, but existing homes were turned into rentals. We turned six-and-a-half million owner-occupied homes into rentals in the last ten years. So, when people say we are becoming—

Jake: It's an interesting point, yeah.

Neal: Right. We are not becoming a tenant nation, we are becoming a landlord nation. People are not selling their homes when they move, they rent them out. This is a trend that has accelerated over the last 10 years.

In my mind, if we continue to build at 40-50% of the levels that we were building in 2006, we will continue to see absorption. That absorption is bad for the country because it's basically switching from an owner-occupied country to a tenant-occupied country, but again, none of us are politicians. We don't have any control over it. All we can do is align ourselves with the mega trend, where homes are switching 500,000 to a million every year from owner occupied to renter occupied and that switch in the long run is very, very beneficial for multifamily.

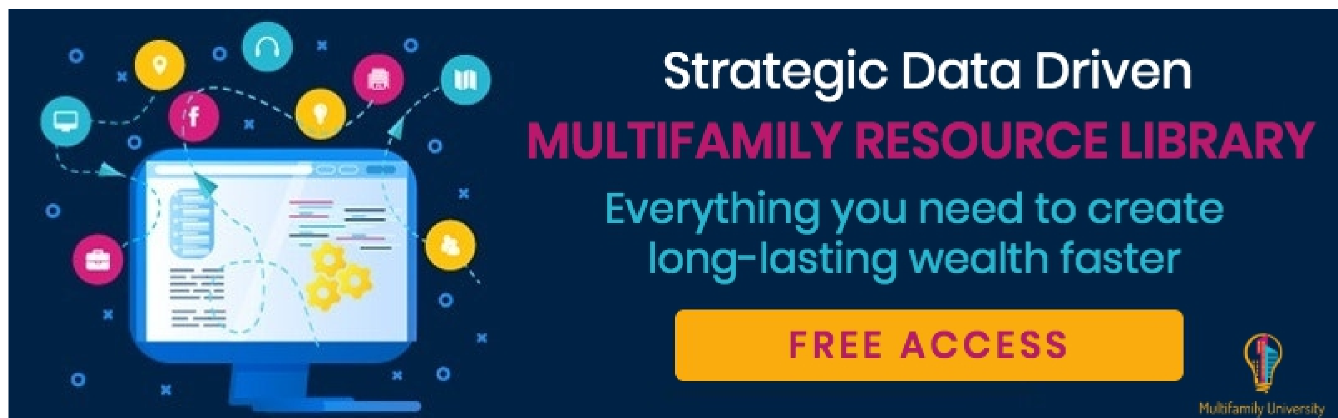
By the way, go back and study this in other countries that have run out of land. What about Hong Kong? Most expensive place on earth, right? Makes Silicon

Valley look super cheap. What happened to Hong Kong when they ran out of land? Their multifamily rates went insane. Their rent rates went insane.

We are beginning to run out of land in some of the areas in the U.S. It's like the San Francisco Bay Area, areas like Seattle are simply running out of usable land. No one has built an additional circle of beltways in the last 20 or 30 years. That's the problem. That if we built one additional circle of freeways around major cities, now you can put another million people there, but name one city that has built a new beltway in the last 20 years. We haven't.

Usable land at reasonable distance from jobs, is running out.

Gino: So, Neal, let me get your take on the tax bill and tell me how it's going to affect the blue states and what markets are you afraid of? You mentioned some really good markets. What markets are you really negative on?



Neal: To be honest, I am negative on the expensive blue states. Tax reform is a bigger deal than rising interest rates because it is the hidden killer. It's a massive number. So, in the San Francisco Bay Area, because of the impact of tax reform, it's going to be so significant that the Wall Street Journal just wrote an article—this is a great article, I got to send it to you guys—that talks about California losing 800,000 people a year for the next five years and they're losing those to Texas, Arizona, Nevada, Florida.

So, the winners of tax reform are Texas, Arizona, Nevada, Florida and to some extent—some extent—states like Idaho, which just have robust economies. But most of the time, the leach is really into the sun belt. Expensive blue states are going to be really hurting. Connecticut, in my mind, is a huge, huge loser. Good bye Connecticut, because—and you've already started seeing that affect. California, I can't say it's there yet. I'm predicting something in the future. California prices are all-tie highs. But please look at luxury homes in Connecticut and you will see the drastic declines that have happened over the last year, year and a half. They cannot sell them to save their lives.

Those kinds of impacts are going to affect markets that are low cap rates. What are the lowest cap rate markets in the U.S.? Boston, New York. These are markets that are going to get affected because, I mean, if I was a political man, and I don't look into politics much, I would say that this is a brilliant move on part of the Republicans to move people from an expensive blue state into inexpensive red states.

I think that there are a few people that have made that argument, that that was the point of tax reform and especially the part of tax reform which took away salt, the subsidy that blue states have enjoyed for a long time.

In my mind, the blue states were basically getting away Scott free for years, riding off millions and millions of dollars of their income using the home subsidy. Now all of a sudden, they have to live in the real world.

Gino: Well, Neal, I moved over a year ago to Florida for that reason. Before tax reform, because I saw the property taxes that I was paying—even though my mom tells me, "Yeah, you can write them off," I'm still paying them and it's still, as my partner of there likes to say, it's theft and it just wasn't fair for what we're paying for the public school system up in New York.

So, I have the option, I have the lifestyle where I can move to Florida, which is a no-tax state. There's no state income tax, the cost of living is cheaper down here. The quality of life is better down there. So, I am a product of what you're talking about, but I saw it before it happened, and I was planning for about a year and a half before this even occurred, so I'm glad you mention that, because I think a lot of guys are moving there. And, you know, maybe they'll become wiser. Maybe they'll be able to cut and maybe become a little more efficient with their spending. I'm hoping. I'm hoping that they do it, you know?

Jake: [Laughs]

Gino: Why you laughing, bro?

Jake: Because you were drinking margaritas and now I thinking you're smoking the peace pipe, so…[laughs].

Neal: Yeah, I don't think moving to Florida makes people more frugal or better with their financials, but there is no doubt that their quality of life increases.

Gino: No, I'm saying the blue states. Hopefully they become more wise and more efficient with people leaving and getting us—now they're living in the real world, so hold on a second, I've got these people fleeing, let me at least become a little more efficient with the money that I'm spending. That's all I was hoping about.

Neal: Well, I think that—and maybe this phrase is the wrong phrase—but I think that over the next three years, blue flight is going to become a phrase. You are going to see massive numbers of people leaving these horribly-overpriced states like mine. I live in Silicon Valley. When that happens, I think that these states are going to have a massive wake-up call because the economy of expensive blue states like New York and California is totally built on ever, you know, continuous growth.

Some of that growth has slowed already because these are extremely high immigration states and our overall rate of immigration has slowed tremendously in the last 12 months, but even beyond immigration, there were a lot of people coming in for jobs but now because they cannot afford pricing at any price—in Silicon Valley, people making $349,000 a year are considered middle class by the government because they cannot afford to buy a house because the average home is $1.6 million. When you see that kind of impact happening, there's going to be a U-turn and technology is going to aid that.

When I have tools like Zoom and Slack, I don't want to hire employees in Silicon Valley and by the way, I'm not hiring employees in Silicon Valley. I'm looking for people that are in ecosystems such as yours, Jake and Gino, that want to come and talk with me and say, "We know you're buying lots of multifamily, how can we work with you? We've gotten all the education, we want to work with you." Those are the people that I'm interested in. That amplified 100,000 times over is going to hit the blue states.

Jake: You just touched on a blue wave of deserters or whatever term you used.

Neal: Blue flight.

Jake: Blue flight, there you go. I think that—and you guys may think I'm crazy—but I would not be surprised if this takes hold, that you see policies put in place for economic deserters from some of these states that will penalize them on reentry if they leave or whatever the case may be, so be on the lookout, you heard it here first. Watch out for the economic deserters and the penalties because they will not get right up here between the ears, they will try to penalize and punish versus change the negative policies that they have. They won't understand it and they will try to penalize versus self-correct.

Gino: Jake, I got a better one for you. New York is implementing free college, so they're going to enslave people by giving free stuff, watering down the educational system, having you get college for free—

Jake: And you can't leave for X-amount of years. Yes, this is the type of stuff they're going to put the handcuffs on, yes.

Gino: You have to stay. So, just be aware, nothing is free in life because someone who is making more than 100 grand is going to be paying. Someone making less than 100 grand is going to get free college. Soon these schools are going to get inundated, the education is going to be more expensive for everyone that has to pay, and then afterwards, it's a stipulation that you have to stay there for at least four years.

So, just be aware of your awesome and I think that's awesome.

Jake: The golden handcuffs.

Neal: I think you're going to see more and more of those. I completely agree that these states will take drastic measures, draconian measures, which may even be challenged in court, to just keep people inside, yeah.

Gino: Wow. We've been talking macro and I think this is wonderful for the listeners because they've got to get an overview, they've got to get bought into why multifamily, but what do you look for in a deal? What are your metrics in a deal? Do you look for any type of cap rates? Cash on cash returns?

Neal: Well, the short answer is, I'm beholden to my investors and even though I've provided a lot of education to my investor base on the fact that cap rates are compressing, and interest rates are rising, I find that it's hard to raise money for a deal that doesn't have 8 cash average. It doesn't need to have 8 cash in year 1 but it definitely needs to have 8 cash average, so that's really the primary focus. I found it difficult to raise money if it's not giving 18% overall return. Not IR, just simple annual return, so if it's 5 years, then a 90% return. 90 divided by 5 is 18.

So, those numbers basically are where I start and I'm finding it very difficult to buy properties. I'm finding it extremely difficult simply because these numbers, this mathematics, when you apply it to a vast percentage of properties, you're only really left with properties that are not in good markets or in non-growing markets to make those numbers work, so it's challenging.

To me, I think this is the golden age of money. Equity has never been easier to raise, but it's also very, very challenging for property. If there's students listening, spend more time on property acquisition. Build more processes around finding more—building more relationships with brokers. If you're focused in one or two metros, think about moving out of those areas and looking at others.

Gino: Neal, we talked off camera, how do you do that? How about going to these Meetups? How about going to networking? Talk a little bit about that before we go into the short answer questions because I thought your answers were—

Neal: What do you mean by that? You mean raising money?

Gino: Well, yeah, it's more of networking with brokers, because I know you like to network. Deal flow, that whole networking ability where you go out to these different events and all that, I think it's really important for the listeners to hear that.

Neal: So, I'm continuously going out to events to find people that have good deals that I can work with. So, sometimes it's just not about your deal, it's about partnering. This is especially important for students because early on, partnering makes a lot more sense. It reduces—the amounts of sense that it makes reduces after you've done three or four deals. But early on, it makes all the sense in the world because of manpower, because of money, because of the availability of staff hours to do lots of different things.

So, I've been looking to partner with people, so I went to the Atlanta Multifamily Summit. I parked there. I met both Jake and Gino there. I'm going out to Dave Lindahl's event, which is this week, so I'm continuously touching people that are in the ecosystem on one side and then I'm reaching out to as many brokers as I can in markets that I like.

The outreach to brokers is in every way possible. I use a product called Active Campaign. I use automations and Active Campaign to touch the brokers that I know are active. I'm mining CoStar for the most active brokers, the people with the maximum number of deals in my ideal size and in my markets and reaching out to them in any way that I can. I'm scheduling visits.

When I go out to a metro, I basically make a Panera or a Starbucks my base of operations and I have my staff preschedule about 18 meetings in 2 days. People actually come in and they're still eating food while the next guy comes in through the door and so I always have to apologize, and I explain to them that I'm here for two straight days, so I'm going to be at this café for about 10 hours a day.
What I find is that when I walk away from that two-day meet upon, like 16 to 18 meetings, I usually have one deal that I can do by myself and I have one deal that I can do together with my partner.

Obviously, in my mind, going out is not important. Setting up your visit is much more important. Because everyone knows that face to face works better. A broker wants to see you face to face. But if you do the work up front of getting enough brokers and enough lenders and enough partners in the pipeline before you go, you're always going to have a successful visit.

Jake: Cool. On the habit side of thing, I always ask people what their best habit for success is. Is this something that you do on a daily or weekly basis that really drives your success? Anything there to share?

Neal: Well, I found that a lot of people say that you want to have creativity and what they're really saying is, "I don't need to be structures." I found that not to be

very true. What I found is that you do need to be structured, you do have to have specific habits. One habit that I like is before I finish for another day, I look at my next day and I figure out what are the two or three things that I want to achieve that day or that next day. That's very key to me because it orients me correctly, allows me to move up appointments that really are not adding value to that goal for the day. I do that all the time.

I use software, I suggest that people that are getting started use software. I'm very tied to a project management, Slack for collaboration. The process of learning that software and structuring your teams to use that software really makes you a much better manager. That's my feedback for you.

My last piece of feedback is a good habit is always be interviewing virtual assistants. I can truthfully say that I've scheduled 10 interviews with virtual assistants in the last 7 days and it takes me 16 interviews that I want to hire. But those VA's, the good ones, the 1 in 16, will give you more hours in a day. So, I can say I have 100 hours in a day, easily.

Jake: For those of you who are just getting introduced to Neal, I'm going to classify him as the king of virtual assistants. Neal is the king of virtual assistants and I want to say that about a year ago I picked up, I think it was from Jack Canfield, that same idea of looking at your schedule the night before and I think it's something even more powerful for it, that it may get lodged in your subconscious while you're sleeping, whatever the case may be, but I think actually that structure coupled with that organization and reviewing your schedule the night before, can actually lead to creativity and more creative ways to get things done the next day and I've found extreme value in it and I recommend anyone out there that's not doing that, it's simple. You may say, like is that really going to do anything for me? No, it does. I've actually seen the success of reviewing the day before and I may be sitting there staring at the ceiling at night and then pondering different ways to tackle the next day and getting ahead of the day and being more productive. That's real and I recommend everyone to get on board with that because I've seen success personally, so has Neal.

What do you see students starting out doing that they should do differently or things to watch out for when they're just getting into this multifamily game?

Neal: Well, the first thing that I see them not doing is they're not following my mantra of always be raising money. So, I find students are very hesitant to raise money until they get a deal. My advice is, don't raise any money while you're in a deal because it takes so much time and effort to do the deal and to close the deal and to actually bring money in from people that you've already got.

I can tell you, the last deal we did, we did the entire syndication process, it took us about 48 hours to actually raise the money to where people had verbal estimates

and then it took us about 11 days to get all their docs done. It took about 13 days to close this property, it was about $12.5 million.

Why was I able to do that so quickly? That's because I'm always raising money when I don't have a syndication going. In my mind, that is the right time to raise money. People are like, "Yeah, but I don't have a deal, what am I going to show people?" Well, show them a deal that you underwrote. Show them a deal that you would have bought if you didn't get bid out., Start believing in your mind that this is your deal. It is in contract. I did get it in contract. Put that deal together in your mind and use that as your pitch deck whenever you're talking to people. You do not need a deal.

In fact, I'm telling you, you do not want the primary deal, the deal that you're in syndication with, as the deal that you're showing the people because you wouldn't have enough time to really make it look good. You wouldn't have enough time to get a very, very good offering memorandum or investment summary together. You wouldn't have enough time to get a pitch deck together. It actually makes more sense to do it with a deal that you lost. With a deal that you wanted to win.

Jake: That's good. You were talking about pulling levers, turning knobs, being the operator before. What is your best value-add strategy when you get into a deal? What is the go-to that you've used time and time again to increase value or to decrease expenses?

Neal: Leasing. What I find is that—I'm not going to discuss the standard value-adds. All of your students know them, you've taught it to them. Let's skip past that, right? Because everybody talks about it. What I find is that 99% of operators in the U.S. do not play a role on the leasing side and I think that's a huge—

Jake: He's talking about asset managers, right, Neal?

Neal: Asset managers. I'm not talking about property managers. What I see are 99% of asset managers are leaving the generation of tenant leads, the processing of tenant leads, to their property managers. In my mind, that is an area that you should develop in because there is a huge role for an asset manager to play to increase the number of incoming leads through technology and secondly, the efficient processing of those.

I have properties where 100% of all leads are being generated by us as asset managers and 100% of all leads are being processed by us using our Filipino call center. I'm not suggesting that that is what you should do. I'm saying that to open your mind about what is possible. Obviously at that point, I'm a hands-on asset manager because I'm essentially doing a significant portion of the property manager's work.

All I'm saying is, you asked me for value-adds. That's an area where you can add enormous amount of value because once you get beyond the initial pain of taking that piece over, the value that you can add there is extremely significant. I mean, you can do the job 2X, 3X, 4X better than the property manager will.

Jake: I have something very passionately to say about this because at the end of the day, Neal, Gino, Jake, we are responsible for our results. So many guys out there will just say, "No, that's this guy's job or that guy's job." Well, if you want it done better and if you want it done right, take control of your life, take control of situations that are very important to you that you want to drive and be the person that gets in there and shakes things up and gets the results that you want.
So, basically what Neal is saying is leasing is very important. That's the revenue side of the equation. That's one of the most important factors in what we do. He's taking control of that to guarantee and ensure success for himself and his investors because it's that important.

I love that, man, because so many times people go, "Oh, that's not my job." You know what your job is? To deliver results in any way that you find to do that that works for you, good for you.

Neal: Absolutely. I mean, just think about the math. A 2% boost in occupancy, let's say you didn't do leasing, you ended up with a 94% occupancy. You did leasing, you ended up with 96. Okay? So, 2% increase in occupancy and a $25 average boost in rents, because your property manager is always going to try to push the rents down a little bit to make it easier for them to rent it out, those two together, on a $17 million typical deal where investors are investing $5 million, that's $2.7 million right there. $2.7 million over 5 years.

Jake: That's awesome. Do you have any book recommendations? I don't know if you're an avid reader or not, but we love self-development on this show and always like to promote the good stuff that's out there in the environment. Anything that you've read recently or anything that you'd like to recommend to the listeners?

Neal: Well, a pretty popular book called The One Thing and I think that it's a well-known bestseller. To me, I think that that book is very useful because I tend to be all over the place. I tend to want to do 100 different things. I tend not to want to focus. I tend to be the kind of guy that's looking at 250 tasks in a project management software to feel good about myself, and I think that book reminded me that that is not scalable and that is not the right way to do things. You've got to have the one thing that you really pursue at any given point of time with a single-minded fixation.

While I'm not 100% implementing what the book is doing, I'm certainly making changes to my behavior to go in that direction.

Jake: Sounds like he's doing a little Law, Gino.

Gino: He sure is.

Jake: What project are you excited about right now?

Neal: It's actually one of my older projects, so in Buffalo, right next to the university, there is no land because the university is 150 years old and all the land is basically locked up or there's zoning issues. We were able to find a factory that is 100 years old. This is 100-year-old factory. It was America's first electric car factory, believe it or not, 100 years ago, so it failed. There's some contamination in the soil from those batteries and subsequent industrial uses and we were able to go in there, buy the land, remediate the land—which essentially, remediation is a fancy word for dig 4 feet or earth and take it off and bring 4 feet of new earth in—and then as a result of that, the city and the State of New York gave us millions of dollars of subsidies.

Now, they're not doing it out of the goodness of their heart. Right now, if you think about a 10-year timeframe for a property that we're going to build, it's a $44 million project, when it's done, it will have a $60 million appraised value. So, $60 million, 2% of that is a million two in property taxes. The current property taxes for the place are under 100,000. The city makes over a million dollars a year ongoing because of our remediation, which is why the city is giving—

Jake: And that's only going to go up, Neal. [Laughs]

Neal: That's right. That's only going to go up, right? It's New York, right? So, now the city is basically saying, "We will pay you millions of dollars in tax benefits today so that you can turn this land from low value industrial to best use student housing multifamily. We're building a brand new project on top of it and on my website, Grocapitus.com, you can actually see that project. You can see it being built. Construction starts in about three or four months, so I'm really interested in that project and its success because in my mind, it's not true value add, it's true/true value add.

New construction is always value add because you're building something from scratch, but to be able to take something that's extraordinarily low cost and low value industrial and turn it into best use is always fun for me.

Jake: What is the best place for listeners to get a hold of you and find out more?

Neal: The short answer is MultifamilyU, the word Multifamily followed by the word U dot com, is where all of my webinars are, my podcasts. I think this is my 16th or 17th podcast. I recommend one with Michael Blank that is similar to this one in terms of demographics and arguments about how the future might be different for multifamily than the past, so you might want to check out that one. There's a ton of

podcasts and a ton of webinars that are based on my—as you can see, I'm a geek, right? I'm a datacentric guy that is focused on using data and analytics to make decisions and there are people out there that are interested in that datacentric approach. Check out MultifamilyU.com and you can contact me from that website, if you wish.

Jake: Very cool. G-Dad, anything else?

Gino: I like this habit. I try to employ it. I call it the trinity, it's structure, it's discipline, and it's focus. If you have all three of those—I was in Disney, some guy had discipline equals financial freedom on his shirt. That struck me, a guy in Disney, but it really comes down to it, if you can have a structure, a framework in life that you can follow, you have a path. If you become disciplined in life and really say, "This is what I'm going to do," and if you can focus on what you want, those three things, you're going to become, I think unstoppable.

I think Neal is obviously—we should have a couple more margaritas. Maybe in October I can see him at Multifamily Mastery Live 2. We'll have a couple more and we'll talk about the state of the economy then. We'll talk about debt levels in the world. I'd love to reconvene on that. But for me, it's been an awesome podcast.

Jake: I'm going to be at the Ed Sheeran concert. I can only do one of these like every six months here.

Gino: No, no, no. Forget Ed Sheeran. I'm not going to learn anything from Ed. I'm going to learn a lot of stuff from Neal, so I'm going to go jump on Neal and say, "Hey, Neal, teach me."

I just want to thank Neal for coming on, it was a great show. I really appreciate the time.

Neal: Thanks so much, guys. I appreciate you having me on the show and love to talk with you offline further as well.

Jake: Sounds good.

Gino: Thank you.

Jake: Thanks, Neal.

Neal: All right, bye-bye.

Fact-Based, Eye Popping Data

REAL ESTATE TRENDS TOOLKIT

Make better informed investment decisions and reach your financial goals faster

FREE ACCESS

- Top 10 City Shootout Results
- Neal's Special Picks