NEAL BAWA – PROVEN PROPERTY BUYING DATA DRIVEN STRATEGIES

Podcast Title: **Anderson Business Advisors**

Podcast Host: **Clint Coons**

Full Transcript:

Clint: Welcome, everyone. Hi, it's Clint Coons here with Anderson Business Advisors and this is another one of our weekly podcast episodes where we are going to talk about real estate investing today. You all know that I'm an avid real estate investor. I have over a hundred properties across the United States and one of the questions I get all the time from people is, "How do you identify the markets you're investing in, Clint?"

This is a question that, if you're just getting started in real estate or maybe you've been an active investor, you've been investing in your local market, and you've determined now that's it's time to branch out and look at other places, it can be daunting to do that because there's uncertainty there when it comes to investing. If you don't know the market or know what to look for, that's going to impact your ability to make money in those markets, which really key that we understand this.

I've been through problems before with my own investing where I made bad investment decisions and I lost money. I'm not afraid to say, it does happen. But if you get the right information, you educate yourself, you're only going to be further ahead of the game when it comes to real estate investing. You'll far surpass the investors you're competing for those same properties, those same deals because you know your numbers. You know what to look for.

So, I thought, this will be a great opportunity to introduce one of my good friends and investor that I've known for several years, Neal Bawa from Grocapitus. We're going to […]. Neil, how's it going today?

Neal: Fantastic, Clint. Thanks for having me on the show. I'm very excited to be on.

Clint: I'm so glad to have you here. I've been wanting to get you on this show for so long and I know your schedule is so busy. Everybody wants to talk to you right now, it looks like, when it comes to investing, and it's because you really hone this in when it comes to looking at markets and real estate. Tell us a little bit about your company. How did you even got started? Because that's a great story there.

Neal: Sure. I'm a technologist. Successful technology career, successful technology exit. I got into real estate in reverse because in 2003, that's 16 years ago, my company asked me to build a campus from scratch and I never even built a single family home.

So, 10 months of trial by fire and roughly two hours of sleep in doing those 10 months but I learned an insane amount about real estate building a 27,000 square foot campus. Had to do it two years later again, larger campus. This time it needed more money. I had to actually learn how to bring in investors who happen to be a bunch of rich local doctors in Fremont that really made out because I didn't even know I was supposed to charge fees for building a $7 million campus for all these doctors. But I needed to be a tenant and they wanted to be landlords, so we did it.

That's how the ball got rolling and then I got addicted to real estate. I started buying my own real estate. Bought 10 single family homes using data science which we are going to talk about today in a city called Madera, California. All of those are now at 2½ times where I paid for them 10 years later. My rents are twice when I started out with.

Then got very cocky and overconfident, went to Chicago and brought 10 triplexes. Bomb, lost money, it was a horrible process because I bought in one of the worst neighborhoods in America. So that day I said, "First, I'm going to learn what truly is the secret sauce of real estate. Secondly, I'm going to teach it to 10,000 people a year."

It took me a long time because that was many years ago but this is the first year that 10,000 people will learn that system. It's an agnostic system for buying in the best markets in the U.S. and avoiding the worst markets in the U.S.

Clint: Yeah, because nobody wants to go through the same thing you went through and I've been through. You make those mistakes along the way and now you've refined the system and you know what to look for. When you're thinking about buying a piece of property, what are some of the top six things that you tell people that they need to look out for?

Neal: It's a list exactly like that. The first thing that I want you to do is look at the city levels. You start with the city level and then you drill down to the neighborhood level. At the city level, you want to invest in cities that have population growth. What are cities that you don't want to invest in because they don't have population growth? Well, St. Louis or Detroit.

Basically, cities that lose population in the long run, you may buy a home for $100,000 and sell it 10 years later for $120,000 but you just lost money because of something known as inflation. The value of the property should go up by 2.5% compounded because of inflation anyway. If you buy it at $100,000 and sell it at $120,000 10 years later, you just lost money and most people do not understand that. The only way to make money in real estate over a long term hold is that you buy in places where the population is growing. How much? You want about a 1.25% increase in population per year.

To figure that out, go to Google. Type in the name of whatever city you're looking to invest in. For example, if you type into Google, "Population Detroit, Michigan" you're going to see exactly why you don't want to invest there but on the other hand, if you type in, "Population Columbus, Ohio" you're going to immediately see why you should invest in Columbus, Ohio. The number one thing is population growth drives profit in real estate. That's my first rule.

The second rule ties into the first rule which is income growth. The people that are living there, their income growth basically drives up real estate numbers. How much income growth? You're looking roughly for, I'd say somewhere in the 1.5% a year in the income growth. That's the minimum number to keep up with inflation and to allow you to keep raising your rents. Where do you get that? You get it at city-data.com. You go to city-data.com, plug in the name of the city that you're investing in. Scroll down just a tad bit and you'll see Median household income. It'll give you two numbers, it will give you a current number and an old number. Just look at the two numbers and see if it's growing by about 1.5%. If it is you are in the right city. If it's growing by, let's say half a percent, then that city is losing to inflation and if you invest there, you're going to lose to inflation. That's the worst thing that you can do for yourself.

In cities where the number is 3% like Provo, Utah, my favorite market in the US to invest in or Boise, Idaho, another market above 3%, you're dancing all the way to the bank. You can make all kinds of mistakes and the city will make up for it because the people there, their income levels are growing so fast that you can screw up and still end up making 20% annualized return. So, make sure that the income is there.

The third one is home price growth. You want to make sure that the home prices have been growing in the past. This is why I don't invest in some of the Rust Belt market even though Columbus, Ohio is a Rust Belt market. I haven't seen enough long-term evidence of home price growth beyond inflation. Obviously, the first percent and a half is really inflation. I want to see more than that.

On that same city data page, where you just saw these two numbers for income, right below that, the next line is going to show you home price increases. So, home and condo value increases. This time, make sure that that number is 2%. So, the first number 1.25% population growth. The second number 1.5% income growth. The third number, 2% annualized growth in the home prices.

These numbers are piggybacking on each other. Population growth tends to basically drive demand for fixed assets like real estate, which basically means that employers have to fight for employees, which raises incomes, which tends to basically raise home prices. So, you've got a one-two-three effect going there.

Clint: That's a lot of information to digest, what you just said.

Neal: Yes, but go do this in 10–15 minutes and you've now made yourself an elite investor because this what people are not looking at. Everybody's looking at the roof. Everybody's looking at the foundation but what you're charging for the home and your delinquency levels, the cost that you're going to have to bear when you have to evict people is really based on what is happening outside of this home. It's based on the one mile around it and then the 20 miles around it. So, 20 miles around it is city level and the one mile around is neighborhood level. If you don't look at those three or four basic numbers, you're leaving most of the profit on the table in 2019 when prices are absurdly high. If you don't know this math, you should be afraid of getting into the marketplace because everything is priced for perfection point.

Clint: Okay. There are those people out there that will say, “The appreciation isn’t that big a deal as long as you’re getting cash flow.” There’s a lot of people who market those cash flow properties and they tell you right up front, “Don’t expect a lot of appreciations over 10 years, but you’re going to have great cash flow.” What do you say to somebody like that?

Neal: It’s nonsense. It’s absolute nonsense because what they’re doing is selling your property in a perfect market in 2019. What is going to happen is that that’s pro forma. What they are saying is, you’re going to get $1200 in cash flow, your expenses are $800, you’re going to make $400 a month. Nonsense. That is not going to happen because it will happen some months out of the year and it won’t happen the remaining months.

These areas that are not growing at all tend to have a wide variety of problems. Number one, the people there have higher unemployment levels. Number two, those people basically have no savings. So, if they lose their job, the only way to get them out is to evict them. A lot of these places have professional tenants that know how to stay in the house for 12 months not paying rent to you.

So, my argument is this. These kinds of properties that are being offered to you, if you buy 10 of them, one will do what they say, two or three will lose money for you, and the rest will not make any money. The law of averages says that if you buy 10, you can buy 10 of the first kind. You’re going to end up buying a spread and that’s exactly where the problem is.

People are not looking at their returns. Are you running a P&L Statement every month? Are you actually looking at your real expenses? Are you looking at what the delinquency, the vacancy, and the turns are really costing you?

People are not doing that. They don’t look at the map. They just look at the pro forma and they buy. That’s the way to lose money.

Clint: Wow. All right, we’ve got to take a quick break. I want to come back from the break and we are going into how you select the markets because that is the key. People always want to know, “Where should I go next?” Let’s take a quick break and we’ll come back to that question.

Welcome, everyone, back to the Anderson Business Advisors podcast. I have Neal Bawa here from Grocapitus and we’ve been having this fascinating conversation as to looking at where to find properties across the United States and what you should be doing to run your numbers to make sure you’re making the right investment. Right before the break, we started talking about what are the right markets? How do you select the markets? So, Neal tell us again if I'm going out there and I'm looking for a property, you hear a lot of people talk about Kansas City, Memphis, and Indianapolis. But what should you be looking for? How do you just figure this stuff out? You take a dart and throw it at the map and then go and google that like you told us?

Neal: I'm going to give you the background behind it but I'm also going to give you a super easy cheating way to look at it. One of the key things that people don't understand today is, if you're tied to data, analytics, and logic, it is easier today to succeed in real estate than it has ever been, and I'll tell you why. Back in the 80s the sort of data that people are paying $50,000 a year for, today it's $300–$400 a year. It hasn't dropped to 1%. It's now less than 1% and it's actually much more accurate and much more up-to-date. That data, it will point you in the right direction all the time.

There are two services that I use, that I think everyone in the US should use. One of the key messages I want to give everybody is, don't go out there and spend $100,000 on buying a property, which is $25,000 of your hard-earned money, without spending $500-$1000 on analytics. I am not selling those analytics. I'm not connected with these companies in any way, but I'm going to give you two companies that I think are worth the gold. You're going to save money, you're going to save effort, you're going to save time with your family by using these two services. I use them all the time. I use some more expensive services as well because I'm buying $20 million multifamily properties, but when you're buying something much smaller, this is really all you need. One for neighborhoods, one for cities.

The first service that I want you to think about is called localmarketmonitor.com. I'm not affiliated with them; they don't pay me a fee. But what I like is that Ingo Winzar, the CEO at localmarket.com comes in a teaches at my multifamilyu.com platform every quarter. I adore what he is doing because what he's basically looking at is looking at all the typical factors.

Remember I told you population growth, job growth, income growth, and crime rates. He's looking at all of that and he's distilling it down and basically giving you a bunch of cities and saying, "This city is very dangerous to invest in right now, whereas this city is okay. And this city is just awesome because here in this city you still got some room to grow. You can grow rents by 25% and you'll still be okay.

But in this other city like Denver, Colorado rents have gone up the most since 2007 that they've gone up for anybody else and home prices have gone up more, so Denver, Colorado doesn't have any headroom. This market, if it's not at its peak, it's got to be super close to its peak. All of that given to you in an easy-to-understand dashboard for a few hundred bucks, and people don't pay for that. And then they wonder why their property basically isn't giving them the 10% that was promised. Well, that's because somebody sold you a lemon.

In two minutes, by looking at that local market monitor dashboard you would've said no. Not only does it allow you to look at cities, it also allows you to look at zip codes. You can simply take a look at an incoming property, type in the zip code, and it'll immediately tell you what to do. By the time you looked at 10 or 15 zip codes, you can immediately tell the difference between a plunker and a diamond in the rough. All you have to do is 10 and you can do 10 of them in the first month. So now all of a sudden you're an elite investor. But there's a better tool and even visually better tool for knowing about neighborhoods. Phoenix is a great city to invest in but I went in, and accidentally lived near their jail, which is a mile away from downtown. That area was incredibly dangerous.

The message there is, great cities have bad neighborhood and in 2019, if somebody from a thousand miles away is trying to sell you a property, its because the people that live in that city, that have money, don't want to buy there. That's the most important message I want to give you.

Why do turnkey properties exist to investors in California when the property is in Dayton, Ohio? Don't you think people have money in Dayton, Ohio? They have plenty of money and they have plenty of choices. They're not buying those properties because there's a problem with them. You can immediately tell there's a problem by subscribing to a service called neighborhoodscout.com. Go in there, it's like $39 a month, you can buy a subscription and then gives you a bunch of reports.

What is amazing, Clint, is when you plugged in the address, it will give you the micro-neighborhood. It'll tell you everything about that neighborhood. Ethnicity level, income levels, delinquency levels, rents, what home prices are paying for, what the future forecast for rents is, what the future forecast for home prices, and basically you're paying $4 for this.

The fact that not 90% of investors in the US use this, is stunning to me because they're losing basically tens of thousands of dollars in their deal because they don't want to pay that $4 to NeighborhoodScout. By the way I'm not affiliated with them, either. I don't make any commissions off of them. I just am enamored as a data scientist by the fact that, basically in today's world, the pot of gold is always in front of you, but people are not willing to spend two hours necessary to walk to the pot of gold.

Clint: You see that because you see all these get rich quick real estate shows and everybody thinks it's easy to invest in real estate. It's not. You have you put in some time and do the homework if you want to find success there.

Now, I know you've had a lot of success with your multifamily investing and you've done a lot of deals over the years, but is there a difference between multifamily and single family when you're looking at these markets?

Neal: In general, not much of a difference. We tend to look at them the same way. What we tend to look for is home price increases. We want to see a rapid home price increase because if today home prices are increasing very rapidly, a certain percent of the market is going to get priced out of ever buying a home. They simply can't stay up, their income is going up 2%, home prices are going up six, seven, eight.

When those home prices are going up, I want to go buy multi family there because that group that is now priced out, just priced out of buying a home, actually is fairly affluent. If they want to live in a nice place, they were going to buy their own house. Now they realize, "I can't do it." Well then they want to rent a nicer unit.

My job is, I go out and buy old properties that are 70s and 80s and then I rehab them. Once I rehab them, the apartment looks nice and I rent it out that particular demographics. So, I'm looking for home price increases that are very rapid. Places right now that have very rapid home price increase are

Phoenix, Orlando, Boise Idaho, Provo Utah, Fort Myers in Florida, numbers of cities in Florida are there on my website.

I have a corridor of opportunity that's about 250 miles long. Miami is not part of it, Jacksonville is not part of it. It's just runs through the center of the state and home prices are projected to grow by a fabulous number in the next 5–10 years. That's a tremendous corridor of opportunity.

There's a second corridor of opportunity in Utah that runs on the north side from Logan to Springville in the south. That's an incredible corridor of opportunity. St. George, Utah is a great city to invest in. The beautiful thing is everything that I'm saying is going to be validated by local market monitor. You can go in there and look to see why is it that St. George Utah has such an incredibly high ranking. The answer is it's becoming one of the top retirement destinations in the US. You can do Airbnb there, you can do hotel-type place there, and then you can do apartment that are short-term rentals there, and you can also do long-term rentals because everything is going up in price. So, you can just do a regular long-term rental there. You can even buy a single family homes and sit on them for appreciation. One of the messages I give to people is that cash flow is king, I get that, but in 2019 getting real cash flow is harder than you think.

Clint: You'd say we're taking on multifamily. One of the things right now that I have seen is that a lot of you say it's over-priced and that the cap rates are so low in the multifamily. You're not going to see me changing that until interest rates go up. What's your take on that?

Neal: I agree. I think multifamily is overpriced. Really the only play today that I believe exist in multifamily is looking at older 60s and 70s product that nobody's ever rehab. Because nobody's ever rehab, all of those units are 800. I can rehab them and bring them up to a thousand.

In multifamily when you rehab older units in the 70s property and make the clubhouse look nicer, repaint the parking lot and bump up rents by about a $175, that doubles investor money in five years. That's a typical template obviously.

For SEC compliance, I'm going to say those are typical returns that are projected, but people are seeing that. That, I think, is the only real play in the multifamily today. There isn't any play, you can't buy a property that's 15 years old in multifamily and expect a cash flow because prices are too high. They're priced for perfection.

Clint: What do you think about where the market is going within the next five years with interest rates and the economy? Do you have a crystal ball that you've been looking at, that you've been factoring into you're investing?

Neal: My crystal ball stopped working about seven years ago but I'm still waiting for it to come back. My feedback to you is this. Don't fight the federal reserves of the world because the politicians have not been in charge for awhile. The economy is driven by what the federal reserve does regardless of ranting and raving of any given presidents. Presidents come and go, congress comes and goes, the federal reserve stays. The feds of the world have determined that whenever the economy starts to look weak, the right approach to take is cut interest rates and do quantitative easing.

Go and investigate what this means and you'll realize why I'm so bullish on any of risk asset. I'm not bullish on real estate, I'm bullish on all risk assets, stocks, real estate. Anything that benefits from bubbles is something that I'm bullish on because every federal reserve in the world their pitch book going forward is simply is cut into straights and do quantitative easing. You can't possibly find two things that aid real estate prices better than those two.

Look at our economy right now at 3.8% unemployment simply because there was talk of a recession, the federal reserve immediately said, "We're not going to raise interest rates." In that environment, how can you be wrong buying risk assets. I know a recession is coming, I think it's either the last quarter of this year or maybe the first quarter of next year. The reason I'm happy about the recession is that, that recession is immediately going to lead them to cut interest rates, which they're already talking about—read their notes—and it's going to cause more quantitative easing. Quantitative easing is liquidity in the market, liquidity allows for lower cap rates and higher prices. So when that recession ends, where going to go into another cycle of real estate and other risk assets going up.

None of this is great news for people who are on social security, but it's great news for people that buy risk assets, because the financial world is now supporting ever growing asset prices. Because that is their solution to every recession, and that was not the case 20 or 30 years ago.

Clint: When you're doing all this investing, you're looking around different areas of the country, and there's only one of you. How do you multiply yourself? What do you do to make this job easier because people have lives and they have to work right now to qualify for loans. Do you have any tips for them on that?

Neal: Going back to technology, things have changed today. I use very high quality full-time virtual assistants. They work from 8:00 AM to 5:00 PM. I only hire computer science graduates with 10 years of experience, I hire them in the Philippines. Then I pay them $6 an hour and then I hire a whole army of them; I have a massive army of them. There's a research guy, there's a marketing guy, there is a social media guy, there's a guy that's reaching out to investors, there's a guy that's reaching out to property owners, and I'm able to afford that and get very, very high quality and benefits out of that $6 an hour.

Essentially I'm outsourcing my research, I'm outsourcing my outreach to investors and to a home owners allowing me to have a 100 hours a day. I tell people that I have a 100 hours a day. Out of which, my personal hours are about 10 and 90 of them are people that have trained for years and years that work my hours. Basically, I can pick up the phone and talk with them, or I can do what I'm doing right now, which is send them a recording of everything that I want. Just blab and talk to them and then they turn it into action items.

If you're not doing that, you are missing out in the new economy. In the new economy, it is my core belief that for every one US employee, you need two employees outside the US. It doesn't matter if you're doing real estate, it doesn't matter what you're doing. Maybe that tire shop is an exception because it needs people to change tires locally. But for most businesses that involve information technology, if you're not using outsourcing staff that is deeply connected into your business, you're missing something. Sooner or later, somebody who is doing it, is going to take your business away from you.

Clint: Is this why they call you the mad scientist of multifamily?

Neal: That's right. I'm known for my controversial views on the future of outsourcing and the future of properties. I am constantly experimenting. What's funny, Clint, is that my most popular experiment is not about multifamily which both irks me and I get a chuckle at it. My most popular video, which is on Facebook, has been watched a huge number of times, is actually one where I doubled or tripled the yield of my tomatoes by using three different technologies—LED lighting, three different kinds of soil, and a certain amount of sun everyday.

I basically ran this experiment live on Facebook doing videos, and telling people what I was doing, and then I showed people the results of how many tomatoes I ended up in each plant. One plant ended up three times as many as the others. I'm constantly doing experiments. I'm not afraid to fail 80% of the time, because the 20% of the time that you succeed more than makes up for the 80% of failures. Failure is the best thing ever.

Clint: Wow. This has been a great show, great podcast, and I know people that have been listening to, they're going to want to know more and if somebody wants to get a hold of you or get more information because you've got so much information that's out there, where would they go?

Neal: I started with the portal called multifamilyu.com and initially it was just about multifamily. We do a dozen webinars a year. Then we realize that most people weren't interested in multifamily. Maybe they weren't ready to invest in multifamily. So, we turned it into a real estate portfolio; we still kept the name. We now do 100 webinars a year. In fact, in about three hours today, we're going to do a webinar with Bruce Norris who's the best known real estate economist in California. We're going to do a webinar and there's about 700 people signed up for that webinar.

Thirty thousand people a year come to our site and take educational events from us which are deep-dive webinars, and we do one a week, sometimes two a week. Check me out at multifamilyu.com. I'm always available to anybody that wants to talk with me. My name is Neal. You just go at neal@multifamilyu.comand you can send me an email. I will be happy to respond to you.

Clint: Perfect. I'm going to have that on the show notes as well so if anybody wants to click on that'll take you right to your site. For those who are listening, we actually have an event coming up in August or September. Check it out. It's going to be in San Francisco, and […] come out and speak at the event as well.

Neal: I'm going to be speaking there. I'm gonna make sure that my audience is there. All of these people in the Bay Area that can benefit from what you keep doing. I followed you for years. I know what you're doing is incredible value not just from an asset protection perspective, but the structuring also has other tax benefits.

I've done this stuff and I can tell you it is incredibly important to do this stuff. Honestly, you want to do it early on, because when you restructure late in your career, the cost is at least 10x if not 100x, the cost of basically doing it at the beginning. I am super excited to be there, I am looking forward to learning all of the new stuff that you guys have come up with.

Clint: I'm excited to have you to have you there because just this little piece of information that you've given us now, I know you're going to expand upon it and it's going to help every investor that shows up. Because not only you have to protect your assets. You have to know where to invest your assets. That's what you're going to bring to the event. So, I'm really excited about it. With that, I don't want to tie you up any longer because you that other webinar you're going to be getting with Bruce today. Thank you for being on. Any last comments you want to make to the listeners?

Neal: No, just thank you for having me on the show and please keep looking at data. Data is the oil of the 21st century, people.

Clint: All right. Neal, thank you very much. I appreciate it and looking forward to seeing you soon on the upcoming event.

Neal: Thanks for having me in the show.

Clint: Okay. Bye-bye.