EPISODE 115

[INTRODUCTION]

Paul Moore (00:00:00) - I wrote a book called The Perfect Investment. Perfect investment, I believed was in multifamily. Then I went on several hundred podcasts and wrote many, many blogs after that where I said, time out. It's not the perfect investment.

Tejas Gosai (00:00:17) - Ladies and gentlemen, welcome to Real Estate Investor MBA. My name is Tejas Gosai, and I've had the honor of helping hundreds of investors achieve the American dream by creating generational wealth through real estate. I've spent the past few years interviewing the most knowledgeable experts I could find in the business to cut your learning time and conquer the hardest subjects in the game. Check out rei.mba which my team and I have packed with over 75 interviews and free access to our real estate roadmap, webinars and publications. If you're listening, I am rooting for you and you're already on your way to financial freedom. Cheers and happy hunting!

[INTERVIEW]

Tejas Gosai Woo! I only bring the best guests on the show. Today we have Paul more. Paul, thanks so much for making it.

Paul Moore (00:01:12) - Oh, it's great to be here. Thanks so much, Tejas.

Tejas Gosai (00:01:15) - Yeah, I only look for people that can share some really great information. Your resume precedes yourself. I looked at your stuff, but I would much rather you tell us in the listeners your history, how you got here, some paradigm shifts, or just fill us in.

Paul Moore (00:01:32) - Okay. Well, fantastic. Let's see. I started with an engineering degree. That was my first mistake. Then I got an MBA. I went to Ford Motor Company for five years to have my own staffing firm for five years, sold it to a public company when I was almost 34, and I really didn't know what I wanted to do. So I moved the family to the Blue Ridge Mountains from Detroit. I thought, hey, I'm a full-time investor now. And the truth is, I was not. I was a full-time speculator. Now, and I didn't know the difference, you know? And now I know that when you're investing your money, your principles generally protected, and you've got a chance to make a return.

Paul Moore (00:02:16) - But when you're speculating, your principal is not at all safe and you've got a chance to make a return. So I had a paradigm shift when I started losing money that I had made from selling my company.

Tejas Gosai (00:02:29) - As most do, right?

Paul Moore (00:02:30) - Yeah, right. Right. Then I got involved in real estate investing and started flipping houses, flipping lots at a resort lake. And about ten years later, I jumped into commercial real estate, where I've been for about 12 years. I'm the co-founder of Wellings Capital and we're a private equity commercial real estate fund. We invest in all types of hopefully recession-resistant asset types.

Tejas Gosai (00:02:57) - That's a great intro. Thank you for that. Can you go back for a second? What year was that? When you kind of switch things up to commercial, you said 12 years ago, but there was something before that.

Paul Moore (00:03:08) - Yeah, I did one commercial investment, actually in 1999, and then I jumped into residential real estate from 2000 to 2010. And part of that included building 7 or 8 houses.

Paul Moore (00:03:22) - And I learned something really important. You shouldn't build a house if you don't know how to put your own doorknob on your house. I'm just saying I found that out, but I was also flipping waterfront lots in 2004 to 7, and then in 2008, that got really tough. So we pulled back on that. But yeah, that was the dates immediately.

Tejas Gosai (00:03:43) - You are a seasoned gentleman who has been through a few cycles. So you got you banged through 2008 and then had to amp it up a bit because, you know, when you get into fund and all these other things, there's investors and regulations. So how did you build that up or did you have advisers or guides.

Paul Moore (00:04:04) - Yeah, we kind of fell into it. We actually heard about the oil. We actually speculated I did it again in the oil in the oil boom in North Dakota in 2010. And we found out when we were visiting there, there was no place to stay. In fact, my business partner, who has a small jet, had to keep flying back to Colorado or back to a different state if he wanted to spend two days there for the project we were working on.

Paul Moore (00:04:32) - So we built housing for the oil workers and, you know, managers, executives, anybody who came to North Dakota. We built a couple multifamily projects ground up, and we leased them out as a furnished extended stay, hotels, also known as man camps. And we we that's what they call them up there. So we also built a Hyatt hotel. And then I actually had a mentor for a year that trained me all things syndication. And that's how I got into official syndication.

Tejas Gosai (00:05:03) - Okay, so I rarely talk about this, but my history is in hotel development in southwestern Pennsylvania, eastern Ohio and northern West Virginia because of the Marcellus Shale.

Paul Moore (00:05:17) - Oh, yeah. Yeah.

Paul Moore (00:05:20) - And so I know about that's where I went to college for my engineering degree.

Tejas Gosai (00:05:23) - Where'd you go?

Paul Moore (00:05:24) - I went to Marietta College for petroleum engineering.

Tejas Gosai (00:05:27) - That's amazing. It's I never do I never get to talk about this. But your circumstance is very similar to mine. My family is from from Pittsburgh. And then my father's a doctor.

Tejas Gosai (00:05:36) - He's like, hey, there's this shale thing going on. You should look into it. And right. We had had one best Western hotel at the time, and there was all these drillers, and I started talking to them and I was blown away. They're like, this is going to be the promised land for the next, however long with horizontal. I forgot the terms where they where they had the streams go out.

Paul Moore (00:05:59) - So yeah, right, right. Did you do the Best Western in Caldwell, Ohio?

Tejas Gosai (00:06:01) - No, but I know who did.

Paul Moore (00:06:04) - Okay. Well, so we have that in common. I know right where that is I 77 exit 25in Ohio.

Tejas Gosai (00:06:10) - Yeah, just over the border. So just just look that's this is amazing to talk about because you saw an opportunity and then you had to build units and rooms and solve a problem. And then you got fully occupied. And and it's funny I actually manage a fund now too. So I'm taking a lot of that knowledge and I've adapted it to what I'm doing.

Tejas Gosai (00:06:30) - But great digression. Let's talk about you. So bring us up to speed. What have you been doing for the past year, year and a half since Covid and dealing through this madness?

Paul Moore (00:06:40) - Yeah, we're doing the same thing we were before I wrote a book called The Perfect Investment. And I know it's a humble title. Thank you. And the perfect investment I believed was in multifamily. But then I went on several hundred podcasts and wrote many, many blogs after that where I said, Time Out. It's not the perfect investment. My book did not account for the possibility that people would be overpaying for multifamily by 20 or 30%. They'd be overleveraging it, they'd be using floating rate debt, and this is all going to come crashing down. And so we stepped away from multifamily being a syndicator, and we stepped into expanding. We really felt like investors, including us, needed better diversification, best-in-class operators, diversification across asset types and geographies and strategies, and even in the capital stack.

Paul Moore (00:07:33) - So we've done six funds. And with these funds, we actually are not the operator. We're not directly operating the properties or property managing. We're actually partnering with the very best people we can in 6 or 7 different asset types. That's what we do.

Tejas Gosai (00:07:51) - Wow. That's amazing. Tell me about the first fund. And then I'm assuming and let me make a jump here, your investor base was okay with having different asset classes, or were the funds all one asset class or how did that work?

Paul Moore (00:08:06) - You know, it's really funny when we dipped our toe in the water to expand from multifamily to perhaps self-storage and mobile home parks and then later RV parks, et cetera. We were nervous about that. So we had in our database a box I checked, are they okay with other asset classes? Yes or no. And then it was yes, yes, yes, yes, yes, yes. And like one person like from Michigan ever said no. One. And so we just finally got rid of that box and said we're definitely doing different asset classes you know.

Tejas Gosai (00:08:41) - Yeah that's brilliant. So then did you have to build the fund to take advantage of that and pull the investors?

Paul Moore (00:08:48) - We did. Yeah. So we used a similar model to the way we have been syndicating before. But there are special rules when you're not the operator. It's probably a little too technical for most listeners to be bored with, so I won't get into that. But there are special rules, and I'll say that we are using a BDC structure. There I go getting technical, and we're actually publicly registered, and that allows us to have the maximum flexibility with our fund and serve our investors the best way we can.

Tejas Gosai (00:09:22) - It's amazing. Can I ask before we get into the deep stuff, how many investors, how many assets you want to share, some big numbers for the listeners?

Paul Moore (00:09:31) - Yeah, I mean, we have almost 800 investors and they're all accredited investors. Each fund has a different size and has a different pool of assets we've invested in. So our current fund, the Wellings Real Estate Income Fund, is for accredited investors only, as they all have been.

Paul Moore (00:09:48) - It invests in a variety of asset types including self-storage, mobile home parks, RV parks, tax-abated multifamily, single-family home portfolio, light industrial and open-air shopping centers.

Tejas Gosai (00:10:03) - Whew, that's a mouthful. Let's go right to date, everyone for this year has had their playbook change a little bit or their futures. And also I say this in every podcast I hate the fear mongering. I hate the whole you got to worry about everything. I rely on folks like you that have been through many cycles and can kind of see things better than I can or some of the younger folks. So what are your investors saying right now? Or people kind of asking you, hey, what's next? And is that changing where you're going? Or maybe markets?

Paul Moore (00:10:36) - Yeah. The most knowledgeable investors we seem to have are really excited that we're actually investing in pref equity. So preferred equity. Some people think that means rescue capital. Some people think it means the preferred return as part of the waterfall.

Paul Moore (00:10:52) - It's neither of those. So let's say that a syndicator was expecting 75% LTV from his loan. And let's say that he was expecting to raise 25%. Well, now his lender comes back and says, hey, we're only going to give you 50% on this. And he can only raise, let's say, 30% equity instead of the extra he needs. And so we come in in the gap. It's also called gap financing. So it's behind the loan. But the pref equity is ahead of the common equity. And that means we get cash flow like a loan. We don't get a lien. We typically get a guarantee from the sponsor like a personal guarantee. And then in addition to the cash flow, which can be eight, nine, 10%, we also get upside when the property is sold. And that might be an additional 5 to 8% on top of the cash flow.

Paul Moore (00:11:49) - So investors really like that.

Tejas Gosai (00:11:51) - Yeah, they definitely should. Talk to me about the different asset classes. And I'm not asking you to rank them, but yeah, some folks and I wish, I had a guest on Spartan, Spartan Investments.

Tejas Gosai (00:12:07) - I mean think they were only self-storage. And then there's some other folks that are just minting money with these RV parks and adding value and things like that. It sounds like you're doing a bunch of this, but can you can you hone in specifically?

Paul Moore (00:12:21) - I just want to make a comment first. I meant to say this earlier that the 80/20 rule is fractal, which means that if you get the top 20% of the top 20% of, let's say, operators, they're going to theoretically get the top 80% of the top 80% of results. And that's been proven by Perry Marshall, who wrote a wonderful book called 80/20 Sales and Marketing. And so this is why I just realized there's no way we're going to be in the top 4% of multifamily or self-storage or RV parks, and especially not 6 or 7 different asset types. You know, the book, The One Thing which everybody loves most people love. It reminds us, you know, that we can't. We can only do 1 or 2 things, really, just one really well.

Paul Moore (00:13:08) - And so that's why we went into these different asset types. And I would really encourage investors to consider investing with someone like Tejas, because they're not going to be able to have a great job, a great family life, and then juggle a bunch of real estate on the side. I think that you would probably agree. Yes, and thanks for that. So yeah. So we bring the diversification piece in. So let me just talk about a few asset types RV parks. They've grown 62% in the first two decades of the century. Wait. Wow. That didn't sound right. That's right. Yeah yeah. Am I that.

Tejas Gosai (00:13:43) - Old? Yeah.

Paul Moore (00:13:44) - So from 2000 to 2020, they grew about 62%. And then Covid just put the whole thing on steroids. Five times as many people started RV camping in 2020. Even when a lot of people were locked at home in their basements as any other year and so did not know that. Yeah. It's crazy. And so there was about 10 million RVs out there, but there's about 8 or 9 additional people who say they want to buy one.

Paul Moore (00:14:12) - What's really juiced this is not only Covid, but the fact the secondary impact, which is the fact that for the first time in world history, a huge percentage of people can work remotely. And so that's just RV part demand. But so has the Airbnb model, which is the sharing model that's come to the RV world. You can go on RV share or out. Did that. Did you? How'd it go?

Tejas Gosai (00:14:39) - I never thought this would actually happen this way, but my wife said she won't go camping, right? So I'm like, our kids are eight and ten and I just rented an RV. It took me ten minutes. It was a beautiful experience, though. I, you know, it was a little bit tough to drive, but I love camping, love RV parks, actually love just hearing about the investment part of it. But you know, you're making me realize something. People can't buy an RV then, right? They're sold out. Kind of.

Paul Moore (00:15:06) - And even if they're not sold out, the interest rates are so high right now that it used to be said, you know, just three years ago, people were saying it's just like an extra car payment.

Paul Moore (00:15:15) - Well, that may not be as easy to stomach right now, but they can lease them. And so these are RVs that were sitting idle 49.5 weeks a year are now on the road. Some of them ten, 20, 30, even 40 weeks a year. And so that's putting tremendous pressure on RV park. So I think this is going to be a great niche, you know, to continue to to look at.

Tejas Gosai (00:15:39) - Let me ask you about that specifically. So how do you add value to the RV parks? I'm sure there's a lot of demand, but what do you do to to juice it a little more?

Paul Moore (00:15:48) - Yeah, there's four types of RV parks, and only one of them that I'm considering would be something where I would, you know, that I would really know about and that would be the destination RV parks. And so some ways to add value to those would be like, okay, so our operator has bought several RV parks, let's say for two, three, $4 million.

Paul Moore (00:16:10) - And then their total CapEx budget might be 20 million. So they're buying all the land around them or a lot of the land around them. They're putting in a fishing lake, a swimming lake. They're putting in glamping units. They're putting in a 2 or $3 million water park. They might add boat docks if it's on a lake, a cheap kind of a makeshift drive in theater, food service, putt-putt golf, doggy pens, outside cabins that they erect, you know, all types of things. I just named about half of them, you know, golf carts that can be rented for more than the tent lots, you know, 75 bucks a day for a nice looking but not really expensive golf cart. Whippets is another thing you know about whippets? No, whippets is a floating obstacle course. It's sort of like this hard foam, and you can put it out on a swimming lake, and kids or adults can rent it. They can go play on there for like $17 an hour, which just seems like a low price.

Paul Moore (00:17:10) - But the total in the high season can be up to $1,000 an hour being thrown off by this value add. So it's a real fun thing to do a lot of that.

Tejas Gosai (00:17:20) - I can see why people that invest in your fund, it's good to hear about those things too. Just hey, how are we raising the value? And I'm sure you report that back to everybody. I mean, honestly, I would like to visit the place with the water park. I've never seen that. Very cool to share that. Can we switch to like, people are always loving the buzzwords self-storage. Can you talk about that and why that became an asset class for you?

Paul Moore (00:17:48) - Yeah, I wrote a I wrote a book called Storing Up Profits Take Advantage of America's Obsession with Stuff by Investing in Self-Storage. And that was published by Biggerpockets Publishing two years ago this month. Anyway, that what we thank you. What we like about self-storage includes the fact that. Think about this.

Paul Moore (00:18:08) - If I was renting an apartment from you and you raise my rent 10%. Okay. Yeah, I get it in this inflationary environment. But in a normal year, if you raise my rent 10%, I'm going, okay, $1,000 a month just went to $1100. If I sign this lease, I'm signing up for 1200 extra bucks, I might move. But if I'm renting a self-storage unit from you for $100 a month and you raise it by 10%, that's ten bucks a month. Yeah, I might be irritated, but I'm probably not going to get a U-Haul, get my friends together, and waste a weekend of my life to move my junk. I'm sorry. My treasures down the street.

Just. Just to save ten bucks when that guy can raise the rent. Ten bucks next month as well. These are month-to-month leases, and people stay a very long time, even if they plan to stay a short time. America. Again, the growth in self-storage. It's been fairly consistent in good times and bad.

Paul Moore (00:19:08) - These are pretty recession-resistant. There's no guarantee that they'll be recession-proof. But at any rate, the demand for self-storage has been astounding. You can see that if you look around when you drive anywhere and see all the self storage units next door to each other, that all seem to eventually get filled up. We like investing in value-added self-storage, which could be a conversion. Let's save an old warehouse or an old Kmart building, or an old ToysRUs building, and those can be very profitable if done right.

Tejas Gosai (00:19:40) - What markets are you in right now? Just in general.

Paul Moore (00:19:45) - So Warren Buffett talks about, you know, finding a durable product, a fantastic operator, and let them make the detailed decisions. And that's what we do as well. We do not pick markets. We pick the best operators we can find. We're very, very picky. Once we find an operator we want to partner with, we let them pick the market. So it could be Wisconsin, it could be Ohio, Pennsylvania, West Virginia. They decide and we go along for the ride again after we put them through a very strong due diligence process.

Tejas Gosai (00:20:19) - Sure. Can you just share where you guys are?

Paul Moore (00:20:23) - So we're based in Lynchburg, Virginia, but as far as where we are geographically pulling up a map here, we are in over 30 states now, and we have assets all through the Sunbelt. We have a lot of focus, a lot of concentration in multifamily in Texas. We have assets in New York, Pennsylvania, Virginia, Tennessee, South Carolina, Florida, Georgia, Colorado, Utah, Arizona, Nevada, California, Washington, Oregon, Michigan and and a few more states.

Tejas Gosai (00:21:00) - Wild that you keep track of all of this. How do you keep track of all this?

Paul Moore (00:21:08) - We've got fund managers to do that. We've got a great guy on our team named Michael, and he works with Ben, my business partner. So this is something you might find interesting. I feel like I underperformed pretty significantly as an entrepreneur for years, and every time I tried to do stuff on my own, I didn't do that well. And then I came across a book called Traction by

Gino Wickman. And Gino is actually an old friend of mine. I didn't know he got famous until I saw him on a bookshelf one day.

Tejas Gosai (00:21:40) - That's amazing.

Paul Moore (00:21:41) - We actually ran his payroll for him in Michigan when we had the staffing firm in Detroit, Michigan. Anyway, the book Traction explains that you've got a visionary and an integrator, and you need both to have a great business. And I'm a visionary. I'm definitely not involved in all the details, all the time. And so it wasn't until I got a fantastic integrator who's this young man named Ben who's a prodigy I actually unhired. How do you say that? I bought out two business partners and actually replace them both with Ben, and he's doing ten times more, maybe 50 times more than they were together. Now, to be fair to them, they both had other great businesses and they still do. But Ben is a prodigy and he has pulled together a lot of my wild thoughts and visions, and he's willing to say no regularly to me as I come up with new ideas. And that's one of the things that's been such a blessing to work with him.

Tejas Gosai (00:22:38) - That's awesome. I love the growth, the scalability, and don't mean that many people that have like multiple funds like this in multiple asset classes. So I got to drill you on what are we going to do over the next few months? Can you tell me about, you know, what you think on interest rates? We have all this. Political stuff. And there was more last night and everyone's kind of funny. Can you share? Yeah. Just what you think for the next year or onwards, or when we're going to feel a little better about all these things?

Paul Moore (00:23:10) - Yeah. You know, the geopolitical is a complete wild card, just like Covid was. So I really can't speak to that so much. I can tell you. I talked to the former head of the Mortgage Bankers Association who lives near me. I spoke with him on Tuesday and I said, what's the future of interest rates? And he said, well, they're done making interest rate hikes for now.

Paul Moore (00:23:33) - But he said the volatility is going to continue and interest rates are not going to go down too soon. He doesn't think unless there's some huge geopolitical, you know, thing that just throws a wrench in it. But you know there's 200 is it 200 billion? I think in multifamily it's either multifamily or commercial real estate loans as a whole coming due in the next short period like six months, 12 months.

Tejas Gosai (00:24:00) - I just saw that article. It just came out. What does that mean though? What does that mean for someone like you or somebody out on the street?

Paul Moore (00:24:10) - You know, I don't mean to sound arrogant, but we have been really, again, partly a lot of this was because of Ben's foresight, but we've been investing in assets that have a long-term fixed rate debt in general, or some of them are actually cash only. So it's not probably going to affect us unless this hangs on for more than five years. But for folks out there in general, my multifamily mastermind yesterday, we spent an hour and a half a month and we went through and talked about some of the syndicators losing their deals or about to lose their deals back to banks or lenders.

Paul Moore (00:24:45) - It could get ugly. Here's the thing, though. Unlike 2008, when you could buy those assets for less than half price sometimes, I don't see it this time. You know, Tejas, I think that what's going to happen this time is there are these huge, huge groups like Oak Tree, Howard Marks and others who have billions or maybe hundreds of billions of dollars combined to go in and buy these assets up. I don't think most of us are going to see the great deals. What do you think?

Tejas Gosai (00:25:14) - I'm afraid of that. And a part of my world is staying in one geographic area. So I'm in. I just practice in a 2.5 hour radius and I'm very microeconomics. Yeah. You know, the whole blood on the streets thing. That's what everyone's waiting for. I agree, I don't think it can happen with us not being at 2%. And the Fed's trying to get there. There's got to be a lot of pain and like discomfort to change things. But the economy is too healthy and everyone still wants to buy everything.

Tejas Gosai (00:25:47) - It's kind of terrible.

Paul Moore (00:25:49) - Yeah, it's really crazy. The supply and demand in equity or the out-of-balance supply and demand is enormous in housing, especially in multifamily. It's going to get worse if a lot of these projects grind to a halt here. And they are.

Tejas Gosai (00:26:05) - Yeah, we're watching it happen. You mentioned something and we hate it that we already got to start concluding things. But you mentioned something interesting five five-year fixed. But before that you mentioned funds that are taking variable rates and some issues. Can you tell me how you've seen some other funds? You don't have to mention anything but like them not do as well as you are because you're being really risk averse.

Paul Moore (00:26:31) - When I was back there screaming about multifamily not being the perfect investment for those years, we were talking about overpaying, over assuming, you know, the rents in Tucson are going to continue going up 18% a year. Well, that's just not probably going to happen. Let's not assume that. And we were concerned about over-leveraging and the floating rate debt.

Paul Moore (00:26:51) - But what I didn't realize was the power or the horrible negative power, I should say, of cap rate, floating rate caps, floating rate caps. And these borrowers, you know, I've got two friends. One of them said his rate cap guarantee that he bought, which is basically a temporary guarantee that your rate interest rate won't go above a certain level. It was his reserves for it. That's what I was trying to say. His reserves for the future rate cap replacement were running $1,000 a month, and they went up from a thousand a month by the lender. The lender mandated that they crank it up to 89,000 a month, and somebody else was paying 2000 a month, and they got cranked up to 70,000 a month.

Paul Moore (00:27:43) - Imagine how that impacts a deal?

Tejas Gosai (00:27:45) - Are you saying 70 times more?

Paul Moore (00:27:47) - Yeah, I'm saying that, yeah. One guy went up 89 x and another one up 35 x. How are those guys going to sustain their distributions to investors, but how are they even going to survive?

Tejas Gosai (00:28:01) - Honestly, when I hear stuff like that as a fund manager and a fiduciary, I'm like, how do you sleep? You know, like how do you talk to your investors that you've been communicating with? But yeah, this is why I love talking to folks like you.

Tejas Gosai (00:28:16) - And I really rely and have a lot of respect for my elders who are willing to share information. But you've been awesome. I could probably talk to you for the next couple of hours. How does somebody invest with you, or get a hold of you, or be a part of the Wellings Capital World?

Paul Moore (00:28:32) - They can follow me on Twitter @PaulMooreInvest, or they can get free special reports on RV park investing, self-storage, mobile homes and a lot more by going to Wellings Capital. That's Wellings. Wellingscapital/resources.

Tejas Gosai (00:28:52) - Thank you for that. And everything for the listeners is in the show notes and we will have your website link. But I got to always give my stamp of approval. Paul you're amazing. Full endorsement to invest in you and a fund that is this risk averse. So I love your style and I can't wait to have you back in the future.

Paul Moore (00:29:13) - Oh thank you, I'd love to come back. Thanks so much.

Tejas Gosai (00:29:16) - For sure. It's Real Estate Investor MBA. I'm Tejas Gosai. This is Paul More. Thank you for your time. Cheers.

[END OF INTERVIEW]