Tejas Gosai (00:00:00) - Welcome, everybody to our webinar. The name of this is Invest Smarter in 2024. Today one of the main topics is going to be the recession quote unquote. Or if there's a recession. And so most of our presentation is about how you can understand what's happening right now in the economy, micro-macro level, from the history to now and then, what Paul is doing to limit risks in real estate investments, and what I'm doing as well, and some best practices that we hope will help you make your decisions for 2024.

Ladies and gentlemen, welcome to Real Estate Investor MBA. My name is Tejas Garcia, 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 REIT, NBA, which my team and I have packed with over 75 interviews and free access to our real estate roadmap, webinars, and publications.

Tejas Gosai (00:01:20) - If you're listening, I am rooting for you and you're already on your way to financial freedom. Cheers and happy hunting!

Paul and I met through the world of podcasting. Paul's from Wellings Capital. He was a guest on Real Estate Investor MBA. I have really grown to love this hobby of podcasting, and it's one of the ways I keep sharp with being a fund manager. There are 120 episodes roughly, and most of the past maybe 100 have to do with fund administration, property management, real estate investing, buying recession-proof assets, and things like that. So lots of information there. Please check it out and check out our two interviews. The first one I did with Paul was “Smash Inflation and Invest in These Recession-Proof Assets”. The one that came out this past week is the most boring and profitable investment strategy you need to know. We won't spend time on that, but I would love for you to check it out. It's REI.MBA when you get a chance. So, Paul, I get to talk about you for a minute and…

Tejas Gosai (00:02:34) - I'll ask you to chime in. Paul Moore, a mentor of mine. Now, I've had him help me with a few things I've had to deal with. But investor, author, and managing partner of Wellings Capital started investing in real estate in 1999 with a hundred plus real estate investments and exits. He co-founded, developed, and operated several commercial projects, including two multifamily assets, a waterfront subdivision, and a hotel. He is the author of multiple books. I'm going to highlight that he is a featured guest and contributor to Bigger Pockets, which is very well known - if you don't know the Real Estate Investor website to help you learn the industry. Also, he's a philanthropist giving back through charitable efforts. Married 36 years and turned an engineering degree in MBA degree into managing. It's for funds now, right, Paul?

Paul Moore (00:03:31) - Yeah, we're on our fifth income fund, actually, the Wellings Real Estate Income fund.

Tejas Gosai (00:03:37) - . You've been tremendous. Can you add anything here? Tell us anything you'd like to share about your background.

Paul Moore (00:03:42) - Yeah. What I forgot to put on this bio is I co-hosted a podcast as well, and I'm surprised you'd have me on here after knowing that the title was How to Lose Money. And, it was actually a wealth-building podcast where we talked to successful people about their pain, losses, agony, and defeats on the way to success. And, you know, we found that trials can either make you bitter or make you better. And these people chose to be better through it. And almost every one of our 238 guests said they were glad it happened, though at the time it felt like they wanted to die.

Tejas Gosai (00:04:23) - That's very cool. I didn't know you did that, but I think whenever we talked on the podcast, I had said, you know, there are folks like you who have been through these cycles who know you know what to do on the worst day that some folks don't know what to do. And that's why you have a leg up., and you got to share that info, right?

Paul Moore (00:04:41) - Yeah, it was painful to talk to these folks, but I think it was cathartic.

Paul Moore (00:04:46) - Is that the word for them as well? Many of them said that they had never even talked about this since 2008 or whatever. And so I'm really glad we did. It was it was a fun ride for four years.

Tejas Gosai (00:04:59) - Awesome. Thank you. A little bit about me I manage the Lehigh Valley Private Equity fund. We create generational wealth through real estate investing. Clearly, the fund synergy is here. We're a newer fund. And I look forward to one day being like Paul and some of these other folks out there. I will say we're in our startup phase still. It's been just a couple of years. And what you were saying, Paul, mattered to us. We took a big pause in our creation during COVID-19 and waited an entire year and a half just to see what other funds would do in this situation. So it was a really great stress test for us to get off the ground. Our mission is to beautify our community and impact the Lehigh Valley's housing crisis, to create safe spaces where families can celebrate their most cherished moments.

Tejas Gosai (00:05:45) - So we have a lot of pride in what we're doing on the tenant investor side. Here's just a quick snip we deal in trust. That's our little slogan here. Our investors are mainly doctors, lawyers, CPAs, and other high-net-worth individuals. I have 20 years in real estate development. I have built hotels, medical office buildings, large retail facilities, gas stations, and actually a couple of Dunkin Donuts. I'll say as well, I'm of Indian descent. We're we're in a lot of these businesses that run 24 hours. But I learned a lot in my 20s after graduating from law school, I put a lot of my skills to the test, and I married a girl from the Lehigh Valley, where I practice now, and we have a commercial real estate team that is the backbone of our fund. We've transacted almost half a billion in multifamily real estate specifically, and just over 3000 units in my career. My partner over here on the right is not able to make it, but his name is Jeff Cella. He has been in commercial finance for 40 years.

Tejas Gosai (00:06:51) - He's financed over 70 million projects in the past few years, and he's done 500 plus in loans. So what we did is we took the real estate part of what I've been doing and the lending part, it's split 80% real estate, 20% lending, and that's how we're able to enter and exit all of our assets, where consistently buying multifamily is holding on to some of them, and then we're flipping some to make a profit. While our lending division at 20% provides consistent income and liquidity for our risk tolerance in the fund, we have 35 investors. We've raised 7.2 million. We've done about 45 loans, 45 plus loans. In the past two and a half years. We've transacted about 160 units. Our average return has been annualized by 10% since we started. Our target return is 12 to 18%, and there have been a few quarters where we've gone to 11 and above. Specifically this past quarter, we produced a 13% quarterly annualized return for our investors, which helped us average above 10% for the year of last year.

Tejas Gosai (00:08:05) - Again, our assets are multifamily, and one huge thing is we have zero bank loans. I have and Paul is going to talk about this. I've negotiated some great seller finance deals and most of our assets we've purchased in cash. And we did that partially because we've seen a lot of other funds have a lot of difficulties, and that really came to light in the past six months with what's going on in the market. We have had 31 consecutive returns paid to our investors 31 months in a row. We have not missed distribution. So a lot of pride in what we're doing. The last big thing here is our market is very hot. We are a small market though and says it right there are really big small markets. In 2023. We landed number six on this list and have a good competitive score. It has our occupied apartments in our region 96.4%. We have a lot of prospective tenants. Renewal dates. The last big bit is the way that we infiltrate the market that I'm in is off-market. Everything that the fund has purchased has been off-market and provided by either an intermediary that we worked with or somebody that has a property before it goes online.

Tejas Gosai (00:09:25) - And so we haven't purchased anything online or through the MLS. This is how we're able to get significantly discounted purchase prices. We have a great construction team for property management, and we get a very high purchase price on the sale because of the rents in our market and how well we rebrand and change the income and expense of that property, that's our claim to fame. I don't want to go nuts into this. I'd rather get into all of our topics. Paul. Let's get into what the nuts and bolts of this presentation are. I have this graphic here. Keep calm. It's only a recession. And just in those intros and a little bit about what we're doing here, the rest of this presentation is some of this is very damning and it looks difficult, but it's statistical information and data that we have to share. Paul just wrote a recent article or a couple of articles that came out in the past few weeks about this, whether or not we are in a recession. So at the baseline, you're going to hear some difficult things, but we're going to have a very positive conclusion at the end.

Paul Moore (00:10:37) - We promise.

Tejas Gosai (00:10:38) - Yeah we promise. So two two seconds on this slide. What is a recession? Well, when a recession takes place in our economy, we observe a decline in real GDP. That's gross domestic product for two consecutive quarters, signifying a recession. We're keeping a big track on that. Consumers are less likely to make major purchases and may even cut back on essentials. These things really affect everybody in the country. These numbers that we're going to share, it's tied to our groceries, right? Unemployment spikes with businesses laying off workers to cut costs. Difficult. But we've been seeing that happen. Disruption in the equilibrium between supply and demand can be a characteristic of a slowing down economy. Reduced consumer activity may force businesses to scale down production. And last but not least, I think the best one here is uncontrolled inflation reduces the purchasing power of consumers and people will likely consume less. Interest rates are a big part of this presentation. Paul, let's talk about this. This just came out. Jerome Powell, Federal Reserve chairman, said that the consumer price inflation was 3.1% year over year in January, per the statistics.

Tejas Gosai (00:11:54) - That's still well above the Fed's stated goal of 2% in the long run. The annual inflation has been stuck at 3% or above for eight consecutive months in a row. I'm not going to read this whole thing, but removing volatility in that next sentence is important. And the Fed's aren't going to stop until 2%. Paul, do you mind talking about this and what you've been seeing in the market and just what you think is going to happen here?

Paul Moore (00:12:20) - This may be different than what you know, people expect to hear, but I'm actually surprised it's this good. I mean, think about all the money. You've seen the slides, you've seen the graphics. They have pumped so, so much money into our system in the last four years since that pesky little thing that happened four years ago. I'm kind of surprised they've done this well, getting it down to 3.1 3.9%. Whatever you believe it is, I know that my wife, when she goes to the store, says she thinks it's higher than that, so I don't know.

Paul Moore (00:12:56) - I gotta tell you, I don't think that they expected this. When they said when they hinted in November, they'd probably see, what, 3 or 4 quarter point drops this year. And then they came back pretty quickly and said, well, maybe not. I kind of wonder if that maybe not. It's going to turn to a hard no if we see another bad February in March, what do you think?

Tejas Gosai (00:13:18) - I follow the fed like an animal. Just I have a Google alert. All my apps are like, what's going on with this? Who releases information? I don't think it's going to be a fun result. I think they're just not going to stop until we hit that 2%. We're not going to be able to do anything about it. That's just how it's going to go.

Paul Moore (00:13:38) - I don't know many famous people other than you just but I do know David Stevens. David Stevens was the head of HUD under the Obama White House for a while. He was also the president and CEO of the mortgage bank Mortgage Bankers Association.

Paul Moore (00:13:54) - After that, for almost a decade until he retired. I met him for coffee not that long ago, and he said, Jerome Powell is a student now. I'm forgetting his name. The Fed chief under Reagan in ‘79 and ‘80, he, you know, clicked right the month after Reagan got elected. A month before he took office, he clicked the prime rate up. Was it to 21%? I think basically Alan Greenspan said, “Look, he'll do anything he needs to do to make absolutely sure that inflation is eradicated and including following in his footsteps.” So now I'm thinking it was Paul Volcker.

Tejas Gosai (00:14:40) - Tremendous decision-making power, right? Yeah. He's the decision maker. So that's why we harp on every single word. Let's let's talk about what that means. So this is like the economic forecast that we're determining here. So the Fed's plans predicted three rate cuts for 2024. Aiming to lower borrowing costs for consumers and businesses. The inflation slowdown validated the Fed's strategy, boosting stock market sentiment.

Tejas Gosai (00:15:06) - We're seeing some different things being said now, right? 2024 Economic Forecast. Economists predict a 1.3% economic growth, expecting stronger output by fall due to fed rate cuts. The unemployment rate is projected to rise but remains low at 4.2%, which, you know, no one wants unemployment. That's literally our neighbors losing their jobs. But that's what happens in this situation, which is why you have to get it under control. Economic projections and revisions. GDP growth through moderate though moderate approaches in the pre-pandemic decades averaged of 2% and then the housing market. I'm going to turn it over to you, Paul. However, it was initially weakened due to high mortgage rates and is anticipated to strengthen as rates decline. Tell me about a couple million units that are in high demand or that we don't have.

Paul Moore (00:16:05) - Yeah. Here's what I think. Just I think that the shock of 2007 through 11 was so severe. Actually, it didn't bottom out till January of 2012. By some measures, that shock was so severe it permanently terrified developers and builders. I mean, not only did it put their plans on hold.

Paul Moore (00:16:27) - I mean, how many years were we driving by those half-completed subdivisions, you know, with the infrastructure done, but maybe two houses? Obviously, that's changed now, but it hasn't ever really, in my opinion, ever caught up. The slowdown in supply from late 2006 through 2013 was so severe that I don't think we ever caught up. And what's happened since then, we've got 4 or 5 things happening. Number one, we've got baby boomers. Baby boomers are the smallest number of renters. And when we talk about a 2 million unit housing shortage, I'm talking about single-family owned single-family rentals. You know, mobile homes, and multifamily are a big one. Baby boomers are living longer. They are actually the smallest but the fastest-growing group of renters. And statistics say when they rent, they'll never buy again. Second, we've got millennials. We have baby boomers around 77 million, and millennials around 80 million. And they are renting more often than buying. Hey, why should they buy when and lock themselves down to a 30-year contract on a seemingly overpriced home, when they might have new opportunities and friends across town or across the world next year? And then you've got the almost 80 million strong Gen Z? Too hard to say where they'll land yet, but they're going to need housing whether they buy or rent.

Paul Moore (00:17:58) - And then the big factor, I think, is immigration. Immigration, whether legal or illegal, they're going to need housing. And so this 2 million unit shortfall right now that you're seeing continue to bolster unbelievably high single-family and rental, both rental and single-family pricing, even during, you know, this large hike in interest rates, you're going to see it continue. And I think it will be much more than 2 million units with the current slowdown going into the 2030s. Even so, I think this is going to continue.

Tejas Gosai (00:18:35) - I love how you broke that down and people don't want to talk about immigration at all. But yeah, that is one part. Millennials, you know, the whole rent-to-live rich culture of Uber and micro charges and all of those things. But the culture of America used to be, hey, I want a home, I want to own a home. And now all of that is dissipating as well. Huge opportunity for us and real estate investors, a huge opportunity for people to be a part of this business, one, but also just us in the business to limit risk and make sure that our investments are sound and that we take care of our investors.

Tejas Gosai (00:19:17) - That's the biggest thing that Paul and I do. We're fiduciaries for investors, and looking at this really, really matters because the demand, you know, you're saying 2030 like this demand will not be filled no matter how hard we work unless we can build modular like China, it's going to be difficult to satisfy. Yeah. Economic difficulties. Interest rates will maintain or slightly decrease until the Fed sees consistent change. The US economy will suffer. That's a conclusion. Massive layoffs. This is the doom and gloom slide. Massive layoffs due to shrinkage business shrinkage. And the fed is still concerned. So none of this stuff changes. But now let's go into the history. And then we're going to bring it to the present and go to the future pretty quickly. Paul, you've been through multiple cycles. You've seen what's happening now before. Nuances are different. We're kind of living in a crazy tech age now, and I'd love for you to talk about this in the 70s and 80s when interest rates if you look over here, were 12, 14, 18, 20%, people were still buying homes, people were still in business, and the fed was insanely trying to get control of this.

Tejas Gosai (00:20:30) - And then there were a couple of spikes that took place. Can you talk about these couple of decades here?

Paul Moore (00:20:35) - Yeah. My parents moved in 79. And this is actually a tribute to my parents right here. If you're a parent listening, check this out. Not only did my mom and dad come to every one of my football games and practices for 11 years of me playing football, they also moved to get me into a better school district twice, in 1979 and again in 1980. And I didn't appreciate how painful and how hard those moves were for them financially. But I look at this chart and I realize, wow, thank you.

Tejas Gosai (00:21:08) - Do you actually know what type of interest they were paying?

Paul Moore (00:21:10) - I don't know, but I can only imagine it was in the high teens or worse.

Tejas Gosai (00:21:15) - Had to have been. That's amazing. Your parents worked their butt off.

Paul Moore (00:21:18) - Yeah, they really did. So yeah, I mean, we've got a situation here where again, as I said earlier, I am not really sure why interest rates.

Paul Moore (00:21:29) - I mean, inflation is not even higher. And I'm worried that maybe Jerome Powell is going to have to raise them again. There's another slide that I couldn't find this morning that showed how many times you've got that situation, which in ‘73 and then again in ‘79 with interest rates going, you know, or inflation, I should say, let's call it that, you know, being at 12.5% and then later dropping and then going up to 15. And you've got other situations in our history where this double spike has happened. And some people are worried that once this is brought under control and inflation and interest rates drop, let's hope in the next year we're going to see it roar back. And Peter Lynch, Fidelity Magellan Fund, said those who live by a crystal ball are destined to eat glass, so I'm not going to try to do that here, but I am saying that is a risk.

Tejas Gosai (00:22:25) - Thanks for that. Looking at just these lines the reason we're following these articles and looking at everything is you can really get ahead just to shade by knowing what some of the factors go into creating these numbers in these lines.

Tejas Gosai (00:22:42) - Going back to what you said, Paul, I minored in economics at Ithaca College. I would love the interest rate to go up a little bit.

Paul Moore (00:22:51) - Oh, not.

Tejas Gosai (00:22:52) - Not even in like a negative way because it's inevitably going to go down. But like there's not enough pain in the market, there's not enough people buying less stuff. Like, no, sadly not enough people are being fired. I hate saying that. But that's a contribution to these numbers, these lines, and where they go.

Paul Moore (00:23:08) - Yeah, it's really true.

Tejas Gosai (00:23:10) - So let's talk about the future part of this. Now. We look from 2015 to 25. We're saying that inflation, just like people are predicting and interest rates are just kind of going to stay the same, maybe go down a little bit, but not until inflation is lowered. Anything you want to add to this?

Paul Moore (00:23:28) - If we look at where inflation actually is in January, clearly it's above that bronze-colored line closer to four. And that makes me wonder if interest rates and inflation are not going to trail down this next year and a half as it shows.

Paul Moore (00:23:44) - What do you think?

Tejas Gosai (00:23:45) - I agree completely, that's the scary part, right? Because I want a clear decline. Do you agree with this every month that things don't change the right way? It's 2 or 3 months to get out of that position at least.

Paul Moore (00:23:56) - Yes.

Tejas Gosai (00:23:57) - If you look at 2020 and the numbers here, it's really insane. But these are the drastic measures that had to be taken. So we know they can take drastic measures if they want to. Here's the future of interest rates 30-year fixed from US news. And I think this is comfortable. We're going to talk about buying assets. And like whether you should or not people are trading properties or appraising. I don't think this is that far off. Maybe it'll only go down to like 6.2 by the end of the year, but I don't think it's going to go lower than six-ish, and I don't think it's going to go up.

Paul Moore (00:24:33) - Makes sense.

Tejas Gosai (00:24:34) - Paul, I'm going to hand it to you. This is the article that you wrote and we put a bunch of it in here.

Tejas Gosai (00:24:41) - So I'll let you have at it.

Paul Moore (00:24:43) - Yeah, absolutely. So a lot of people are predicting a recession in 2024. Jeremy Roll, for those of you who follow Jeremy, Jeremy helped me get into this business a long time ago. Jeremy started investing passively in funds like taxes in 2002 or 3, and he quit his job in 2007. He's just a really analytical guy, and he predicts that there's virtually certainly going to be a recession in this coming year. Our economics has been incredibly accurate since I was in college, and they predict there's certainly going to be a recession. They've been 94% accurate since 1985. This credit growth versus GDP growth graph between 1952 and 2009, all nine times total credit. Grew less than 2%. There was a recession later. Interestingly, that didn't happen. And since 2009, I'm not even going to count 2020. That was just a weird 3 or 4-month period. But since 2009, the fed has been able to increase their science, if you will, and their art to getting, you know, using quantitative easing to make sure that didn't happen.

Paul Moore (00:25:58) - And so it hasn't happened since 2009, but the general trend nine times and before that it did. You can flip the slide. So I talked about Jeremy Roll already. Jeremy Roll. Here's what he says. He says to expect job losses and consumer spending decreases. Stock market decreases. He thinks it's going to be a crash. And fed rate cuts which again after the last month's news I am not sure if that is going to happen. The question is, does the economy even matter when making investments? Warren Buffett says no. Warren Charlie said they have never had a conversation. They've known each other since 1959. They've been investing together since the mid-60s. They've never had a conversation about buying or selling a company or a stock based on the economy. They're looking for three things. Number one, they're looking for durable asset types that would be like recession-resistant real estate for us. Second, they're looking for great professional management teams. And that would be groups like Tejas, you know, who are professionally managing their multifamily.

Paul Moore (00:27:12) - And third, they're looking to buy at a price far below intrinsic value. So Michelangelo said, when I look at a piece of marble, I don't see the marble. I look inside it and see an angel trapped inside, and I just have to knock off the superfluous stuff to get to the angel, which is a crazy way of thinking about intrinsic value. But intrinsic value is when an operator can see opportunity, can see expansion and value-add opportunity that a lot of other people miss. If you guys go back to the 70s like I do, you remember there was a great band called Rush, and Rush has a song called Something for Nothing. It says you can't get something for nothing. And I generally grew up believing that, and I do believe that. But there are always exceptions. And Warren Buffett says the exceptions are where we can make a lot of money. Warren Buffett said price is what you pay and value is what you get. Did you know if Berkshire Hathaway lost 99.4% of its value, it would still be the S&P 500 from the mid-60s to now?

Paul Moore (00:28:25) - It's that's how well they've done. That's their boring investment strategy. So they look for the exceptions. They look for the uncommon value. And in 2008 I think they slightly broke their rule. Maybe because they bought Berkshire Hathaway 5 billion in Goldman Sachs stocks, right, when nobody else would touch financial companies with a 39.5ft pole. And that was September 2008 at the very most terrifying moments of that crisis. But they didn't invest in common equity. They actually made a small fortune from investing in pref or preferred equity. And we think that is one of several opportunities that are out there right now.

Tejas Gosai (00:29:11) - Thank you. That was awesome. I have to agree. You know, I mentioned off-market earlier, and like all these systems and methods that we have and operators have like you got to find a needle in the haystack. And I'm just looking at the next deal at the next address and the next line items. But thank you for that. I know you're going to talk about preferred equity, but for now, can you just tell us what preferred equity is?

Paul Moore (00:29:34) - Preferred equity sits in the capital stack between debt and common equity.

Paul Moore (00:29:40) - Some people say, wait, isn't that mess debt? Well mess debt. Mezzanine debt sits in the same place. Senior debt is first in priority and therefore lowest risk and typically lowest return. Common equity has unlimited returns, but they have no security in the property. In other words, if the lender forecloses, they could lose up to all of their principal. If equity sits in the middle, it has some of the pros and cons of each. Pref equity sometimes has a personal guarantee, but it doesn't have a lean on the property. Pref equity typically has a contractual rate of return, and right now, instead of 5 or 6%, we've seen historically as far as the contractual yield, it's more like we're seeing 9 or 10% in our realm of 1 to 5, 1 to $6 billion check sizes. Unlike debt, preferred equity has some limited upside and right. Now we're seeing compounded accruing upsides on these pref equity deals that are running, you know, six, seven, 8%. Sometimes we're going to see a deal that has a 9% current pay cash flow that's similar to debt, plus another 7% upside, which will put you at a total coupon rate of 16%.

Paul Moore (00:30:56) - And the pref equity, the preferred equity has priorities over all the common equity. So the cash flow is prioritized and the principle is prioritized. So if it is 30% common and I include GP equity in that 30% common in GP equity if the value of the property drops 30%, that common equity can get wiped out. The pref equity, in theory at least in this example, wouldn't even be touched, just like the debt. Does that make sense?

Tejas Gosai (00:31:27) - Yes. Thank you for that. You're looking at reduced risks and high rewards. That's the simplest way to put it. And this is the world you play in this.

Paul Moore (00:31:36) - Is that something for nothing? The thing that Russ said wasn't possible, but Buffett has made a fortune off of it. And that's basically looking for asymmetric opportunities where risk is lower and return is potentially higher.

Tejas Gosai (00:31:49) - Thank you. Thank you for that. Let's talk about what you've been up to. And please share any information about your fund's assets.

Paul Moore (00:31:58) - Sure.

Paul Moore (00:31:58) - I wrote a book in 2016 that was humbly titled The Perfect Investment About Multifamily.

Paul Moore (00:32:06) - But then I went on dozens and dozens, maybe over 100 podcasts, including my Biggerpockets show, and said, no, it's not the perfect investment. If you have to overpay over leverage, use risky floating-rate debt. Frankly, assume that trees are going to grow to the sky, meaning that the rents are going to go up indefinitely while your expenses are curtailed. And so we got scared and we backed out and we said, no, we're not going to do that anymore. We're going to try to hit singles and doubles, and we put together a fund that has multiple asset types, geographies, operators, strategies, and even multiple places in the capital stack, meaning common equity and preferred equity. For the most part, we are in this unusual window right now where we think, you know, Howard Marks wrote a great book. If you do anything as a result of this podcast, get his book, Mastering the Market Cycle Getting the Odds on Your Side. He talks about looking for these asymmetric opportunities, and he says that those come when most people are scared.

Paul Moore (00:33:15) - Those come when there's uncertainty, those come when we're approaching or even in the bottom part of the market. Are we there yet? I don't know, we won't know unless we look in the rearview mirror. Nobody knows the future, but we can act appropriately for where we are today. And this means that for our company at least, we're looking for these preferred equity opportunities where we can get a limited total return of, let's say, 15 to 18%, but also with much lower perceived risk than common equity.

Tejas Gosai (00:33:49) - Thank you. Thank you for that. Can you talk about multifamily syndicators swinging for the fences and the problems that you've seen people, other folks in our industry run into? Sure.

Paul Moore (00:34:00) - From 2014 to 2018, ‘17 at least, we were making offers on multifamily and being outbid by 10, 20, and 30% when we had stretched to our limit. And we thought, what are they doing? How are they getting this? Well, they had aggressive underwriting. They used lower cost at the time.

Paul Moore (00:34:22) - Floating rate debt, shorter-term debt with no deficits, no early payoff penalty. And they were doing things that, frankly, we know that the rising tide lifted all boats for the last decade. But Warren Buffett said that that tide will someday go out, and then we'll see who's skinny dipping. That's exactly what's happening now. The tide's gone out, and a lot of people who were actually making better returns during those good years are being pummeled right now. Here's one reason why they did so well. If you take the same deal and put 50% leverage on it, you're going to get a certain return. But if you take that same exact deal and put 80% leverage on it, you're going to get more than double the capital gain. When you sell that property, the common equity is going to get more than double the benefit, but that's actually a recipe for disaster when the rising tide is falling. And that's where we are now.

Tejas Gosai (00:35:22) - Thank you for that. And that's where you got to look yourself in the mirror as a fund manager and make really good decisions and try not to get caught naked.

Paul Moore (00:35:30) - So one takeaway is I already mentioned it, like Buffett said, investing. In recession resistant assets acquire below their intrinsic value. With professional managers, we personally like mobile home parks, RV parks, self-storage, and industrial parks and we also like multifamily, which are assets with built-in equity at acquisition. For example, we recently invested in a tax-abated multifamily property in Texas that was acquired. And immediately the property taxes were abated. For the next only 99 years, it meant that the purchase price of $80 million was the appraised value. The next day was got this $113 million, and that meant that the common equity of 26 million, which was about 25% of the 80 million. Just I'm rounding it. It's probably actually more like 30% that 26 million grew by 33 million. I didn't say it grew 233. It grew by 33 million. What? That speaks to me as a potential for a nice return. But what it speaks, more importantly to me is it creates a very nice margin of safety, as we saw from a debt service coverage ratio that was much higher than it would have been if it hadn't been for the tax abatement.

Paul Moore (00:36:53) - So that's number two. Number three, we're looking to invest in pref equity. There are four types of pref equity I'm going to start at the bottom. Most people think it's rescue capital buying a rate cap or refilling debt service requirements or capital improvements to save a deal that's going south. We don't do that, but it is being done a lot right now. Development pref equity. We don't do that either. We're doing an acquisition, value-add acquisition, and we're doing a recapitalization of existing properties. And I'm not against the R-2. I just think they come with more uncertainty, more risk, more speculation. And I'm at my age a little tired of speculating.

Tejas Gosai (00:37:35) - I think also control.

Paul Moore (00:37:36) - Yes, that's right.

Tejas Gosai (00:37:38) - On that too. We're buying a lot of smaller assets, but we're buying them fully occupied. Sometimes we're buying them half occupied and immediately, sometimes raising the rent, doing renovations or switching things up and very similar track, you know, we're able to boost these values quite significantly. And everything we talked about earlier really matters in this equation.

Tejas Gosai (00:37:58) - With more rentals than ever, higher rentals than ever. And then the largest demand. Yeah.

Paul Moore (00:38:05) - Basically we believe there's over 402 billion. We just saw this morning today just sitting on the sidelines.

Tejas Gosai (00:38:13) - Dry powder is the term.

Paul Moore (00:38:14) - Yes. And it's waiting to pounce on these assets. I do not believe most of us are going to see this 50% off deals we saw in 2007, eight, nine, and ten or beyond. I don't think we're going to see them., some people will, but we won't. I think a lot of the institutional investors, Howard Marks at Oak Tree Capital, others, they're going to see these opportunities. I just don't think we will. So the question is what are we going to do? And I throw it over back to you Tejas. Let's look for off-market opportunities. Let's look for deals that are not marketed widely by a broker. Let's look for deals where the seller is actually bummed out because last year they were offered 5 million for a property. Now they can't even get four.

Paul Moore (00:39:01) - But they still had dreamed of getting 5 million. And they know that. Had that money reinvested or spent in their mind, they're willing to do seller financing, especially if they don't have much debt or any debt on it. They might be willing to do seller financing at a very, very low, even zero interest rate. And that is where you get great opportunities in times like this. Agreed.

Tejas Gosai (00:39:25) - And on that seller finance note, even if it's at 5%, 6%, you're not paying a bunch of the fees and prepayment penalties and all these other things. I like what you're saying because I do think it's a margin game or it's a needle-in-the-haystack game. So you have to have a lot of communication with inventory, with the market, with people. If you're saving 2% on property management for a big portfolio that turns into more profits, there are ways to squeeze a lot out of what we're doing. Going back to dry powder, though, does scare me to some degree, because for me and some of these investors, right, we don't have the capacity to be able to compete with a lot of these people and even countries.

Tejas Gosai (00:40:08) - China is buying as much of America as they can right now. And I think that's what's going to be the hardest. And what you said earlier with people taking advantage of the opportunity, like if it passes by, it's already done. You need to do it when people are complaining. And right now, at that time.

Paul Moore (00:40:24) - Yeah, it's absolutely that time. Howard Marks says that the best deals are when people are running for the exits. And that just makes sense.

Tejas Gosai (00:40:32) - Yeah, you got to have some cajones to stay in the game.

Paul Moore (00:40:35) - You do. That's why courage is the number one investment characteristic. It's not IQ.

Tejas Gosai (00:40:41) - I like that economic forecast, the positive outlook. Real estate values are continuing to rise, with buyers continuing to purchase through banks and other financial institutions. The good operators always find a way. That's what Paul and I were just talking about. People are buying and selling banks for lending properties or appraising. That's what I've seen in my market. That's not the case in every market.

Tejas Gosai (00:41:02) - There are changes all over the place, focusing on one rising market for the investors on the webinar or listening to it. I think that's a huge thing or a specific region and making sure you have boots on the ground. Paul, you invest in operators that have good boots on the ground, and then your job is to make sure that they're on their toes, right?

Paul Moore (00:41:25) - That's exactly right.

Tejas Gosai (00:41:26) - Consistent buyer engagement. We've just seen that people are still buying. People are still renting. People still can't afford homes that have to rent. And then those unconventional buying tactics that we had just mentioned, as inflation gets under contract, it should be under control and rates begin to drop. One day might not be soon, but real estate will remain consistent to some degree. And we know that eventually, inflation will hit 2% because I believe the Fed just won't stop until that happens. And then it's going to take many months to feel those changes from beyond. When it hits 2%, right, investment rates will eventually drop. But now is the time to buy or invest.

Tejas Gosai (00:42:07) - And we talked about that immensely. The high demand for rent, purchase, sale, refi opportunities. And number four and five are important to me. So you can chart map and prepare for the next cycles. All indicators can be measured and tracked. Now is the easiest time to get as much knowledge as humanly possible for you.

Paul Moore (00:42:25) - Absolutely.

Tejas Gosai (00:42:26) - Yeah. And Paul, you know another thing is mentorship and talking to people. I firmly believe that picking up the phone and not texting or emailing is the way to success in the next, however many years. But we're relying on people who have been through this, and comparing dates and notes is a really, really big thing. Paul, thank you for being here. Any closing thoughts or words?

Paul Moore (00:42:49) - Yeah, I got several. Number one, John Marietta, a name you haven't heard of. For the most part, John Marietta in the 60s decided that he was going to focus on real estate, but he didn't want to be an expert in real estate or real estate in North America, or real estate in California, or real estate in Northern California.

Paul Moore (00:43:07) - He wanted to be an expert in real estate within one mile of Stanford University's campus. And you know what? He's Charlie Munger's friend, and he became a billionaire with this strategy, just focusing on a very small area. He eventually expanded out through a little bit more of the Silicon Valley. But at any rate, my point is you do not have to have a wide geographic footprint. In fact, Warren Buffett and Charlie Munger talk about having a small circle of competence and doing that really well. Think about it. Michael Phelps. If he had tried to win 28 medals, he might have thought, hey, I'll just do the long jump, the high jump, water polo, shotput, and swimming and diving. You never would have heard of him if he did that. So focus is key and I want to take my hat off to you because you're focusing on the Lehigh Valley, and I don't think you're going to have to worry just about all that $402 billion of institutional capital that's going to be buying, you know, 500,000 unit apartment buildings or converting old hotels and office buildings, all that stuff.

Paul Moore (00:44:12) - You are going to fly under the radar. And the best operators do that. And so your investors should be really happy knowing that they're investing with somebody who's laser-focused, who's got boots on the ground, and who is picking up the phone. Our best operator that we've invested almost $60 million has eight people continually working the phones, calling over and over and over again to these mom-and-pop operators. And by doing that, they have made their investors a fortune. And that's what you're doing too. So thank you for hosting this today.

Tejas Gosai (00:44:45) - Thank you, thank you, thank you so much. Everything you've said resounds. I can't thank you enough for being here preparing for this. Thank you to everybody who has made it and stuck through the whole time. We have some folks who have been here for the entire presentation means the world to us. We are going to make this recording available, and we're also going to transcribe this as well and make it available in that way. And again, Paul, thanks so much for being here.

Paul Moore (00:45:11) - Thanks, Tejas.

Tejas Gosai (00:45:12) - Take care guys.