

EPISODE 92

[INTRODUCTION]

Matt Faircloth (MF): What I have faith in is not predictions. What I have faith in is that people that I know and trust will figure it out. If you're sitting around waiting on the market to change, they'll keep changing. And you just got to have to figure it out. And that's what has worked for me over the years.

Tejas Gosai (TG):

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!

We got Matt Faircloth again, one of my favorite dudes, I have modeled some of my career after Matt. I've been following him on BiggePockets for years and he almost doesn't need an introduction. But back for the second time my buddy Matt Faircloth, he has been a full-time real estate investor since 2005. In that time, he has successfully completed projects involving dozens of fix and flips, office buildings, single-family homes and apartment buildings. He controls thousands of units in multifamily in partnership with tens of millions of passive investor equity. He is a regular contributor and podcast guests on biggerpockets.com. He has a very active YouTube channel, which I highly suggest you check out it's dedicated to educating investors. And he's the author of the Amazon Best Seller *Raising Private Capital: How to Build Your Real Estate Empire with Other People's Money*.

You know, when you mention other people's money, you want to do it legally safe, clean, and you want to provide a great return. That's what my podcast is all about. Whether you're a first-time investor, you're buying your first single-family, you want to have a good return, you want to have the right underwriting. I just had a podcast dedicated solely to underwriting and it's important that you do

your homework. Matt does. He's been very successful. And he shares a lot of current information that we need to know. Rates are up inflation is crazy job employment is still rising. The Fed is very confused about what's going on. That's a lot of the articles I'm reading. And it's important to talk to people like Matt and some of the folks I have on the program right now about how to adjust your investment criteria or what your hedges are for the future in this business. Whatever asset class however you work in real estate. I wish you the best we're on iTunes, Spotify, Stitcher, Google Play, iHeart Radio, check out rei.mba when you get a chance. Enjoy the interview. Cheers.

[INTERVIEW]

TG: We're here with Matt Faircloth, the one and only. Thank you for being back on the show. Matt is all over the place. One of the best in the industry. Everybody knows him nationally. And Matt, you've recently done a lot more with Bigger Pockets.

MF: Yeah, I've been enjoying working with them. It's a symbiotic you know, love, love relationship we have for each other than that. And first of all, I don't it's tricky waters get to do get to say, thank you for having me back again. Good to see you.

TG: For sure. I'm happy you can make the time for me. I know you're a busy, busy man. But let's have some fun. Let's get right into it. So yeah, I don't want to go through a lot of your history. We kind of did that on the last show everybody who's listening, we have a good interview from before. For those who don't know, you give me the high level real quick.

MF: Lover of helping people find another way to do things. I love to help my investors find a way to build wealth. I like to find, to help those that are learning from certain things that were mentioned in BiggerPockets boot camp. Find a different way to build a career for themselves and to make investments on their own and live life on their own terms. And those of those that weren't from us and you know that that's what I do help people get the difference.

TG: And you've done it very successfully for a very long time. I think everybody knows I manage a fund we're like the underdogs we're slowly growing. I want to become like Matt one day. It is the whole

concept of like, Hey, real estate is still flowing. Everyone's still talking about it. We have some really good prospects coming up. It's January and everybody is looking for Q2, Q3. You know, some perturbative blood on the streets. So, I just want to cut right into it because you see things from a totally different angle you talk to so many different people. Hit me with what's going on right now.

MF: So I was around as you can tell from the gray hair I was around 2008 2009 when the market when residential housing market and multifamily to a degree took a dip back then right and you know that the hit the crash and all that. It was not blood on the streets right away. A lot of people did have foreclosures, a lot of losses, but the only thing 2008 does not have, if you're going to do a deal you're typically doing it through a short sale right meaning like, I want to buy that property for 100k. And the seller owes \$300,000, I'm going to try to get their bank to agree to sell it short. If you're going to do a deal, it was short and there was like the short sellers left and right, then the lawyers got in on it. And everybody started doing all these tricks out, there was a big deck there, you know, that's what wholesalers had to do to make a deal happen.

And the reason why they did to that is because the bank, it takes a while for a pig to work its way through a python. Right? And so it took a while for those bad mortgages to work their way through the banks. Right. And so we didn't see banks selling REO real estate owned stuff that they proposed in the market right? You didn't see that till like 2010, 11, 12 they started to flood the market with the stuff and so that was like the feeding frenzy from the bank but before that there was short sales working with sellers direct.

My point in telling you this story Tejas, is that if there is a multifamily correction you will not see it in 2003 or maybe you might see it in the beginning that in late 2020 right but either way you're more likely going to see is sellers that are more realist on what they're asking for their property, sellers that have mortgages that are coming due and they thought they could sell for this side of the moon stars and you know for 3.2% capitalization rate but they can't do that anymore because the markets just not there and they also realize that okay, I could be a year ago have refied at 3% interest rate but now that refi rates (inaudible) and to now a sale might be more difficult and there are going to be a new distressed owners.

But I don't think that you got a blood in the streets equation the debt market is different now just because what happened in 2008 happened the people think that's going to happen every 10 years it doesn't. If you will look at the prices of real estate it does not, real estate does not crash every 10 years that is not like maybe the stock market does real estate certainly not real estate kind of plateaued look if you chart out real estate over the last 50 years you will see plateaus in real estate prices with a few deaths caused by Wall Street bait financial back stuff to drag it down but I don't believe they just you're going to see the crash but you are going to see is a little bit of realism. A little bit of cold water.

TG: That's a nice way to put it.

MF: You know hard to slow down a little bit maybe a 10 to 15% reality check and maybe sellers and buyers both get a little bit cold we're getting stuff right now to Russia and the buyers that first-time actually have a say in the conversation we're bidding a deal right now the sellers want us to do money hard, meaning like play nonrefundable day one, we're not gonna do it because you're not showing us enough of the property and I'm not going to put money at risk like that on a deal. Year ago the only way to even get their attention was to go money hard day one. Now money hard day one start to dissolve start to go away there isn't as much, usually the sellers they're the last ones to get the memo that being such real estate brokers are the last to get the memo, there's a lot of things that have changed in that.

TG: Just a real quick, hey you know, some people are like afraid, scared. Some folks don't understand the process of like trying to put in an offer at a certain number and things like that. So what are you bidding on where real quick, how large if you don't mind sharing that and then go back and do it.

MF: We are very geographically focused as a company and anybody that I teach for BP or for our own private stuff I tell out of the gate data you got to pick a market like Tejas is investing in the Lehigh Valley as if. (inaudible) But if we have LeHigh Valley deal, I'll take it, you know and we have chosen the Piedmont Triad Road Carolina is one of our markets. So we are pushing hard in the Piedmont Triad, which is great Brooklyn, gentlemen, and a few other pocket markets in the Carolinas certainly not everywhere. So that's where we're bidding because that's a bit remote from us and for us to because

we've got pretty good capital raising capacity and strategies in that we typically buy stuff that's 100 units or above in that market so that's the beginning of a lot more bravery we have the beginning of the conversation it's in a market that we are targeting and 100 units up for where we (inaudible).

TG: So go right back into it then so because of the way things are changing, you're out there

MF: We're getting more control my point was the buyer is actually getting a voice you look at where the real estate market was the last three or four years the buyer had zero voice the only way to get the deal is to shut up everybody else and offer the biggest

TG: deposit three weeks. Right? Well,

MF: No deposit nonrefundable. I had one then it's crazy. I had one seller that wanted us to give the EMD deposit the earnest money directly to them. I think I have a company that's an attorney they wanted to hold the EMD than that and now you got it we added money we're gonna have no collateral

TG: Have they done real estate before like

MF: No, they were hardcore. You're right, but they knew that the way the market was like three years ago, right? So the way the market was three years ago, they could ask for it. You know what, guess what Tejas? Got it. Maybe they got the but they we were head-to-head with another buyer, the other buyer agreed to do it. We were like, no, that sounds like crazy pills. We're not doing that who the other buyer agreed to give the EMD directly to them. Like to their company bank account? I could not.

TG: No, no, no matter what. That's crazy. So buyers have a voice. Nice to hear that nice to hear, you know, stick to markets. What about, I want to encourage people to throw in lowball offers. I want sellers to have to understand that the market's changing I'm a broker and you know, I'm like yeah, we gotta go 75 cents on the dollar. Get them out there enough offers you're gonna start like winning something down.

MF: I've been working with my acquisitions team a lot like the mantra I've been I think my Q1 mantra is stay on the dance floor. Right? Get into the get it and just start dancing. Right, I get it, we got a deal right now, with a bit sounds like a bit of a rope a dope, like you had the broker that probably would take you off, but we're not going to you know, sorry. That's what they want it, they want \$20 million for this, like a reasonable size multidomain we have not walked say you will not allow us to walk the same class and I'm the letter of intent says we're going to give you \$20 million. Hey, you know what I'm gonna do, almost out of that, oh, I have to do it. I'm gonna sign it. I might not commit to twice the LOI, first of all is just a piece of paper that says my intention is to buy property. And the LOI in plain language today, we have not inspected your property. But based on the numbers you set up is what we believe is recording it. But I need to verify that from the sidewalk, right? Now admittedly, I'm on the dance floor. I signed that on it. Okay, and nobody else was going to do this. This was like an off the market pocket listing that the broker adds. So now it's off the market, not to roses dance, and I can get my sidewalk going. And actually well, 40 million, except for minus the new roofs that you need minus all the busted out windows minus the \$7 unit to tell me about minus the, you know, aluminum wiring and all these units or whatever. So now the number is now 75. In that, but I'm getting I'm in the conversation. So what I believe the winners are going to do with sellers and buyers. So we'll get it right now. So if you can go into a little bit of courage yet in case the seller in a conversation and just trying to get trying to get conversation going, Yeah, you'll likely land a conversation at a deal,

TG: You know, and LOI just, you know, letter of intent, it's very non-binding. It's literally a non-binding letter of intent, we put out hundreds of them, because we have so many clients from out of state to get

MF: An LOI done, he defied a few of the terms you want to buy the property I think I want to buy at around this price. This is what I'm willing to commit to end this is a valuable my time eternal like on closing it, if they sign it and you sign it and everything else smells kosher, then it goes over to your attorney to draw out the PSA, which in button that says for purchase sales. And that is a binding agreement. And that's when the earnest money deposit turns yellow, why? First of all it

TG: With that little bit of time being on the dance floor, you might meet the seller, right? You might be able to communicate with the seller and cut the broker out. I mean, you know, I'm a broker, I don't want to cut the broker, but you know what I mean, at least make it a human touch. And then then, you

know, you build a relationship, it's actually a polite way to ask, listen, I would have paid you that amount of money. But here's my five inspections, I paid a roofer I paid this, and you got to take this seriously.

MF: The best deal I've ever done, we're close to me, the broker the seller and a beer, listen, sit down and you know how to have a choice give me coffee, if you're not and you know, whatever. But let's just have some sort of conversation face to face. And then the last couple of deals that I've done that went really well though that there gets to be misunderstandings and a little bit, get your dukes up or whatever those were the buyer or seller

TG: Agreed. It is like a you're represented by an attorney. You're represented by a realtor or anything.

MF: You got people looking out for you. But at some point it's also like when I'm out as well handles. I'm not trying to bend you over. I'm trying to just make a deal happen that works for me, my company, my investors, my key my people, and likely the seller has got the same goal.

TG: Yeah, he's an investor, right? We're trying to match up the dot the i's take me to like today besides that deal, you have investors that you communicate with or maybe investors that are that are just curious, like hey, what's going on? How are you talking to them? Or what are you saying?

MF: We send out a monthly newsletter and in glitter, a lot of it is just highlighting the existing opportunity that we have. We tell them what we're up to and under-delivered by investors. I see what we're also we are straight up like honest, not honest, as the day is long. We're looking to do maths. It's not that we don't have the families the place to be, but multifamily has certainly gotten overheated lately, and I think that it needs that you know 5, 10 15% Cut direction for it to really start to make sense again and for if they hit the ceiling that it needed to hit a little while ago. And let's go for a little bit, we are going to continue to move forward and have momentum. And we're looking at new construction multifamily, we're looking at whether the ability to apartment buildings right now, I just had a great call yesterday with a doctor's conglomerate that wants us to build medical office for them and they would lease it back in an effort to build the suit kind of thing. So we're looking at just different stuff to keep our trains running on time while we wait for things to come around.

TG: I love it that you're saying that because multifamily has been the hottest thing in the galaxy for a bit but

MF: There are other things you can buy besides room apartment building right

TG: Let's talk about that. So like we're always limiting risk trying to make sure there's a good reward just for somebody who doesn't know like Why look at a medical office building or ground up or what is the limiting risk in that to hedge for the future?

MF: Well look at why multifamily makes sense because it's something that a lot of people need, you know everybody needs a place to live and whether the great 30 is going to own or they're going to rent a place to live that housing costs continue to increase and as interest rates continue to stay where they are more and more Americans is going to not be able to afford to buy a home right so multifamily housing may continue to be a necessity there right talks about there is a housing shortage in America. Not that there was bunch of people living on the street it could afford to live in a house, maybe they can but we just you know America is growing more than our house of stock is but that right? So all those are why multifamily but there's other things people need, right they need to have their teeth worked on they will and we have an aging population in America so we will have people that have lower back pain, would need a chiropractor, people that believe in alternative medicine like stem cells and things like that.

So there are medical facilities that use alternative medicine, everything's in crowd therapy. And you know, like I said stem cell therapy like that there are facilities are needed for New Age technologies or for you know, to server aging population, you got to just follow where the hockey pucks going and it's not just housing that America needs we need that but there's other stuff we need too and so if you want to look at what is needed you got to look at your market so let's just say you know, Lehigh Valley or whatever just study LeHigh Valley it's okay demographic in Lehigh Valley decreasing by the the age demographics, you're what, if the median age at Lehigh Valley is six years old, they're gonna be seven next year.

TG: It's funny you say that we have the hospital wars going on right now because we are a smaller market. But like all these folks, because people from New York and New Jersey and exactly what you're saying is what is thriving in my market,

MF: You will be able to and there are like my sister is a nurse and she would leave her house. My sister is a nurse from home, right? That is a more and more prevalent thing, but it's not going to be the that's not gonna replace physical you know, doctors and also you can't get you back craft revolt. You can't get it through as a teeth cleaning from what you can get a diagnosis and so these things might take on a nibble at the urgent care facilities they'd like to get a diagnosis or get like a prescription for some antibiotics. But at the end of the day, there's going to be a need for medical and places to go get a haircut right. The Flowbee, he's not coming back.

TG: I hope people do remember the Flowbee I remember that.

MF: I remember that. (Inaudible) So if you see a rising demographic, yes, they need housing. But they'll also need other stuff. As a multifaceted growth investor can be a part of the way it's provided. Why is first to give you create adage A while ago, you cannot change the market you can only hope to participate in it and so what that means is study your market see where the hockey pucks go and see what's needed. If they've got 35 self-storage facilities. Maybe they only need a 36 one, you know, or maybe that's oversaturated to get, read between the lines, my opinion in all storage but maybe there's other asset classes that they need more. Flex industrial.

TG: What does that mean pretend I don't know what's flexing industrial.

MF: Flex industrial means they often face attached to a warehouse where there's people that sit in an office space that either sell or run the back end or whatever to sell or make a product that gets housed or made itself a little late that you don't go making like action people can actually make stuff Believe it or not America now not we don't have to buy it overseas, you could actually make it here that's where there's a Salesforce for a sportstech work to the office and they support the manufacturer or the housing or the product that exists in that warehouse. The flex space do what it's called increasing double digits in America right now as we start to hit Amazon to find things and as we start to buy more

and more stuff local tell you want to get you want to get on the on the real level. Go look at flex industrial.

TG: I love it. That's like beautiful explanation as to why you should do your homework. I hate it that we don't have too much time. But hold on. I got a big one. So roaring 20s right? There was 100 years ago. Things were great. Everybody had all these problems. And so now today, I think we're gearing up for the best part of the future. We're really through a lot of the bad stuff. Yeah, there's going to be some issues but like the world hopefully isn't blowing up anytime soon. And so with that, what do you tell some of the folks that are listening that are a little bit depressed about all this and you know, just want some motivation to kick up their business?

MF: I had rarely seen anyone predicted future and get it right. So (inaudible) Robert Kiyosaki over here, like, well, it's bad to blow up and you need to buy a Bitcoin or whatever. That's cool. I get that. But everybody's wrong when you predict the future because nobody saw COVID coming, right? Nobody saw the major changes. Nobody, every puppet of things will crash in like 2015, Tejas, right? Everybody thought the real estate was going to take it on the chin right when COVID came out, but guess what it blew up. You know, in hindsight, you look back on why this is happening. These tool sets right. If everybody out there is predicting recession predicting why Chicken Little Sky is falling whatever they're probably wrong the market probably's gonna do the opposite of what everybody predicts The good thing about recession. My guess is I'm not betting my poker chip from this. But my guess is that they're probably not going to call it exactly. Maybe we're all going to hell in a handbasket. The whole thing's gonna fall apart. But guess what, if it does, people like you and me will figure it out, then if it doesn't, we'll figure it out for you. What I have faith in is not predictions, what I have faith in is people that I know and trust will figure it out. If you're sitting around waiting on the market to change, they will keep changing. And you've just got to have, you'll figure it out. And that's what has worked for me over the years.

TG: I love what you're saying. And I'm going to slam it with this. We're in the oldest business on Earth historically, you know, and you mentioned crypto, and you mentioned stocks, and I used to have a bunch of marketing that was like Hey, our fund outperformed but it's true, you know, you're sticking to something that is real, natural.

MF: I was talking to buddy on the treadmill this morning, I was kind of just like bitcoins back up again. And he's like, you know, Bitcoin like no, they should know. Yeah, because I get FOMO fear of missing out right and like, man, it could be 2013 and (inaudible) or the understanding goes up and down.

TG: Yeah, listen, I hate it that we're coming to time. How does somebody get a hold of you or invest with you?

MF: They can learn from us the best is with DeRosagroup.com. And we have masterminds. We do retreat out our multifamily apartment buildings out in the field so you can join us for a sidewalk. We've got a BiggerPocket boot camp coming up all the things you can hear about investing with us at DeRosagroup.com.

TG: Thank you, man. I love you. I appreciate you. I wish you the best and let's get through this this year.

MF: Good to be back on that's all because we got to cut short, dude.

TG: For sure. Everything's in the show notes. Tejas Gosai. Matt Faircloth, the one and only. rei.mba. Cheers guys.

[END OF INTERVIEW]