EPISODE 99

[INTRODUCTION]

Kenny Wolfe (KW): So what we had to do is actually we moved to you borrowing less money, we went to like a 50% borrowing limit, you know, leverage on those. And then we were still buying seven, eight cap deals. So that made that still had us hitting our rough cash-on-cash numbers there. We just borrow less because it was expensive money.

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](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!

I've had a few programs about mailbox money and how to create massive passive income so that you can become one of the wealthy folks that are able to make money while they sleep. Right? That's what real estate is about. You're putting your investment into an asset that you have limited risk in for a high reward. Kenny Wolfe, our next guest is a master multifamily syndicator. I love having folks like Kenny on. One particular reason is he started investing in multifamily in 2010. And so I know there's folks that listen to our program that are just starting out. And I think it's important for you to know that 10 years is a good amount of time to be obsessive about this industry and your growth. You don't want to start off on the wrong foot when you start you don't want to stop.

Kenny is one of the folks that did that. I like to model my career after the folks I have on this program and my mentors, and it keeps me sharp. So a lot of the past interviews I've had are about hey, how do we deal with this inflation? What's going on with job growth? What's the Federal Reserve doing with interest rates, and I would love for you to check them out. Most of my questioning is about how and what we can do today to have prudent investments in the future. I asked everybody to give me their crystal ball view of what they see happening. I hope that it helps you in what you're doing. I have a bunch of awesome tools on our website, rei.mba to help you invest we have a financial calculator to help you underwrite your multifamily deal.

We do webinars and we have a roadmap where we've organized all of our podcasts through stages of the real estate investor growth from you know, when you don't have any real estate, how do you package yourself up to be able to go to a bank all the way to syndicating real estate and how to fundraise or Gene Trowbridge great interview with him on how to keep everything legal when you want to syndicate, right. No one wants to go to jail, and we spent a lot of time to be prudent. And the SEC is a very serious thing. So you may as well do it right. Do it right for your investors.

The important thing I try to teach to everyone that I work with. So Kenny Wolfe is an experienced multifamily investor, the founder and CEO of Wolfe Investments, and the published author of Investing in the Dream: How to Acquire Multifamily Real Estate and Attain Total Financial Freedom. He invested in his first multifamily property in 2010 and instantly saw the potential for real estate to transform his life, giving him the opportunity to quit his day job and start a company. Kenny is passionate about helping others attain financial freedom through real estate investing. He believes in the power of passive income making money while you sleep and encourages others to think beyond traditional investments to grow their wealth.

Kenny has been involved in over $450 million worth of commercial real estate transactions nationwide and is a principal in 5000 units. 7000 units is the all-time high. It's amazing. He holds a bachelor's from Baylor and an MBA from the University of Texas at Arlington. He resides in Texas with his wife, daughter and son when he's not scouring the market for new deals. He enjoys discovering new vegan restaurants and rooting for the Broncos. Amazing guy. I hope you enjoy the interview. And check out our website rei.mba. Cheers.

[INTERVIEW]

TG: We got Kenny Wolfe today, Kenny, thank you for being here. Appreciate the time.

KW: Absolutely, Tejas, it's good to be here.

TG: For sure. So you have been busy. I just did a long-winded introduction about you just for our listeners. Can we get a high level? Who are you? What are you doing now?

KW: Sure. Yeah. So I started Wolfe Investments in 2010 over 12 years ago now and we started out investing in multifamily. We still do that today. We're in four different states right now on that and on top of that six years ago, added two arms. So we now have a triple net fund or funds. We just grabbed up fund number four, with almost 60 CVS Walgreens, Dollar Generals. And then we also do development of multifamily. So both ground up and then in that same arm, we have nine downtown office buildings. We're converting to multifamily in under development at the moment. So we have a pretty wide we are all over the country. We're in Cleveland, Atlanta, Dallas Fort Worth, Columbus Ohio, in Atlanta, Georgia. We're kind of all over on those great projects.

TG: That's great. That's some heavy lifting to get right to where you are. Four funds. Interesting. I manage one fund and I love the fund managers that figure out a way to capture as much as possible and create a vehicle behind it. So let's get into the CVS. You know, how are you pulling that off? It's got to be a hefty amount of capital, and then probably some specific investors that are putting in large amounts of capital. Can we talk about that?

KW: Yeah, sure. So those four funds, we do a fund every year. And so it's four folks that really want that monthly stable income, that cash flow, there's no better mailbox money than those CVS, Walgreens, Dollar Generals because they guaranteed the lease, and they take care of either 95%-100% of the operational expenses as well. So it's smooth on that front, we have 56 stores across the US right now in 16 different states, now we had a break or in-house management of those as well, there is well it is a lot of mailbox money, there is some management that you need. And then this year, we already have a family office that wants its own fund. So that'll be they're dropping in about 15 million of equity on their fund. And then we'll roll on to our other fund here in a couple of weeks with for our kind of our investors that are on approved very good, the phone calls, all that fun stuff.

TG: These are all accredited investors.

KW: So obviously the family offices on our typical fund in all of our investments, we take most sophisticated and accredited investors really we divide them by 60s.

TG: Oh, bravo, my favorite thing in the whole world (absolutely) gets you to really use the power of the internet and create opportunities that none of these people would have ever seen. Which is very cool. So triple net leasing. Let me act like, I have no idea what that is. Can you explain it to me from the root? Why would an investor really want that?

KW: Yeah, sure. So you know, and then brokers like to overuse triple net. So I'll tell you the exact, you know what it means. And then we'll talk about what they sometimes mean. The triple net means that so if we have a Walgreens, we have we bought the Walgreens in Franklin, Kentucky, and we walk in while the roof is leaking. We looked at the lease before we buy it. No. So Walgreens is on the hook to replace that roof. Right. And so I was like, Absolutely, we'll buy it, you know, so the tenant Walgreens, and that's a publicly traded company, that parent company guarantees the rent. So you know, you're gonna get that, but they take care of all of the operational expenses 100%. So they do the landscaping, they reimburse you for property taxes and insurance, they fix the roofs and the toilets and all that kind of stuff. So an investor really buys those because they want monthly income with very limited headaches. That's why they do it. And the downside to those is that the rents don't reset every five years, maybe 10 years, right. And so you're not going to capture as much appreciation compared to our multifamily assets. So it's a trade-off, you know, you're in it for this monthly fixed, almost fixed cash flow.

TG: So let's talk about the cashflow, triple net from a realtor perspective and a fund manager it is a lower return. Right?

KW: We have a little bit of a secret sauce is what I call it on how to do some but we're hitting about eight to 10% cash on cash return.

TG: On Triple Nets. (Yeah.) Fantastic man like because I'm used to like Wall was and other actually we had a CVS and you know, we're trying to sell it at a five cap and trying to like suck out cash flow with these interest rates and stuff. So how do you do that?

KW: Well, so this year, we had a pivot, right? So in March, April, the world changes in lending and 2022, I should say, We're in 2023. Last year. So what we had to do is actually we moved to borrowing less money, we went to like a 50% borrowing limit, I mean, leverage on those. And then we were still buying seven, eight cap deals. So that made they still had us hitting our rough cash-on-cash numbers there, we just borrow less because it was expensive money. And the thought process is helpful. We just paid cash for it. Our thought process was refi them there in the next, you know, 12, 18 months when interest rates come back down again. So really, that's going to how we navigate in 2022 on those.

TG: And so we're talking about one fund triple net good returns my head I was saying like you trade off at 12 cap or you know all these bigger different more riskier returns for an extremely secure company that almost has zero risk if you're looking at it the right way, but you're getting a very clean asset, too. It's easy to want to invest in something like that. And folks in that fund, they're in it for the long haul, they're really kind of just hedging their bets.

KW: Absolutely. And that's why I had the need from our investors because before that, I was known as the multifamily guy that first fund was like pulling teeth because they thought I lost money by doing you know I bought we bought seven Dollar stores that year. It was like pulling teeth. I think we only raised a million for that first one, because it was something new. Like I'd educate them on. They knew real estate, they knew cash flow was like, why would you buy a million dollar, you know, and so now that's really ramped up, we raised almost 20 million last year as fund of equity. So it's, it's now working and then we've been in the office and all that stuff. So

TG: When was that, that you made that transition that shift and educated everyone?

KW: 2017. So we were you know, I started out in multifamily 2010. So it's seven years-ish, you know, going on on multifamily. And then oh, yeah, we're doing once a family and triple net now. (Thank you.)

Yeah. So that's funny. I'm already kicked off that fund. And it's ended now we've expanded now we have, you know, corporate Verizon stores advanced auto parts Walgreens CVS, like I mentioned, we have one LA Fitness out in Florida, you know, we've kind of expanded our tenants, which is, which is also good.

TG: So I gotta ask, what about if one of those tenants leave? What are we going to do?

KW: They've always renewed so we finally got our notice from a Walgreens last week that in two and a half years, they weren't going to renew, which is really early, usually they give you like six months, right? Notice. They're like two and a half years. Like that's some planning, we enjoyed there. But what they offered was to pay us 95 cents on the dollar for the remainder of that term, just to cancel the lease now. And so right now we're running around looking for replacement tenants. Right now we're calling Dollar General, Family Dollar, Dollar Tree, we also have Ace Hardware, they love vacant pharmacies to fill those spots. So we know kind of who to fill what spots with and so it's a town of maybe 2800 people, 3000 people, that's a smaller town, so maybe an Ace, maybe Dollar General would be great there or a Dollar Tree, they don't really have one there.

TG: It's kind of cool that you got the buyer pool already. It's in place, you don't have to wonder and they're taking you seriously because you own a bunch of these properties already.

KW: That's true. Yeah. And then I mean, if you think about it, so I mean, they're gonna give us 95% They're gonna speed that up. So if we find this tenant, replacement tenant, and they're ready to sign a lease, we'll say, Absolutely, they're gonna pay us like 450 grand, something like that, to get out of this lease. Well, that's a huge windfall, because I think we only put in like 300k of equity out of that fund. So we're going to the equity just by speeding it up, if we can find a replacement tenant quickly, who their cash flow will start, you know, very quickly thereafter, it will be a win-win, you can fill those spaces for sure.

TG: That's brilliant. It's the way to go. I'm sure your lawyers or yourself are just hammering away at those lease terms to figure out because that's kind of the tough part. There might be a set Tinder or some other triple net that you gotta get knowing that they might go out of business not not out of business. I'm sorry, you know, maneuver there. (Sort of circled-out store or whatever.) Yeah, yeah. Let's talk about some of your other stuff. So like multifamily shifting into all of this, that's a massive education and then like just risky. I mean, risky in, hey, I'm gonna go do this new thing that's so established. And all these other people are doing it because it's cool, right? I love their show, because people they like the transition the level up and to be able to keep going. I'm certain you're a systems guy. You're keeping everything legal. I think that's what most people are afraid of. Like, how do you do all this? How do you keep it clean? How do you keep it legal?

KW: You have a great SEC attorney. So we've got a great one. Gene Trowbridge (Gene has been on the show.) You know, Gene, okay, good.

TG: I had three with him. He's my favorite guy in the world.

KW: Awesome. Yeah, he's one of mine, too. He's, we're his second. We're number two on PPM with Gene online. He says the number one folks are he's about 92 years old and still doing a deal. So maybe I'll catch him someday. But I'm number two.

TG: That's amazing, man. But yeah, you need people like Gene. Gene is actually not a hard person to find but a difficult person to work with. Because it's not easy to come up with this. A lot of people have this concept, this idea that kind of they're underdogs, right? They want to go get this documentation, attach it to this $20 million property and go to market. How'd you pull that stuff off in the beginning? Like data? You've been collecting? clients, friends? How'd you do that pivot? And, you know, you mentioned the first one was tough to get some capital for now. You're 20 million. That's a very short six years. Right? (Right.) Talk about that? How the hell did you do it?

KW: I mean, so yeah, the triple net, we had a pretty good following already from our investors. It was really just me bought tacos a couple times throughout the year and invite them to learn about triple net investing. I've got a YouTube channel I put out some videos on Triple Net investing, because there's really not a lot out there on those really not in a big way. So really, it was that just kind of getting the name out calling folks. And then once people that first fund for anything, whether you're starting off or starting into a new different asset class is going to be harder because folks just need to see proven results, right? So you're gonna have so once our investors started seeing our the first investor that took the leap with us and started seeing the cash flow, we can kind of point to that. I mean, the second fund was, I think, almost 4 million, the third one was 10 million, the fourth one was 20 million. So it keeps doubling, right? I mean, it's just it's like going out and getting those first few investors and then proven it up, proven the model up and keep going.

TG: And building it right, the timing is really difficult, you know, you have preferred and quarterly returns, I'm assuming.

KW: So that kind of differentiates us, we don't have a preferred return on any of our offerings. And we don't do an acquisition fee on our multifamily or our triple net development we do, because there's a lot of frontline work. But anyways, for multifamily and triple net, there's no upfront fees, there's no preferred return. So it's just a split of cash flow. And I split a cash flow refi because we are a longer term hold company. And so I wanted to make sure that we're always aligned so by deferring, delaying my gratification on an acquisition price, and then them getting a pref. And make sure that we're both on the same page of trying to get this thing to cash flow as fast as possible, and to refinance those as fast as possible as well.

TG: Love it Entry-Exit, do it right, all the way through, how about let's come up to speed, the interest rates, inflation wars, literally everything that could have gone wrong has gone wrong? So what are you doing now? How do you are you looking for new projects? What are your you know, your investors are hungry are people because I've noticed, you know, some people hate the stock market. Now they loved it for the past 20 years, they hate crypto now, if they've lost a bunch of money, what's going on with all that?

KW: So it depends on the asset, I mean, so we were, we still have a B class value add in our pipeline, it's actually a portfolio here in Texas with 443 units. So we're still buying that here in the next couple of weeks wrapping that up. (Congratulations.) Thanks. And then we've got probably three more office towers and downtown locations to convert. Those are really ticking up some of those, we're buying outright, and some of those the office owners are doing, we're doing a joint venture with them to make it a win-win. So we're doing that I've seen a lot of that pickup ground up, we're still doing that as well.

And we've just been pretty busy. I mean, we haven't had a break all through the past two, or three years, just finding new deals to invest in. And that's what's nice about being diversified on what different assets we look at. So we're always busy up here at the office, you know, so and then investors, you're right. I mean, I just had another conversation, I think last week with the new investor, and they were just tired of the stock market. And so they want to find something else that's real. I want some cash flow and some appreciation. And so we kind of talk through which option would be better for them and their family. But yeah, I mean, there's a lot of folks who are getting fatigued at the stock market, they're fatigued at crypto, and they just want to rebalance their portfolio, which is always smart to do. Diversify it for sure.

TG: It is fun to see the shift. And now it's like you got to be tangible. If you're going to be taken seriously, you can't be this like, I mean, I love the FTX stuff. I hate it. But like I love it, because it's like none of this is secured. There's nothing secure about any of this real estate is the most secure part of this. And there's so many more people looking for that, you know, it's big turn, everyone's like, Oh, make money in crypto, but now it's like, okay, I need the stability of real estate. Where are your investors from specific areas? Nationally?

KW: We're actually we have a few international now. But we have a most are from I mean, we're based in Texas. And so a lot of our here, California and New York, kind of your typical, you know, where money's most of the money's found there. Really? I mean, we have folks from Ohio to Oklahoma. I mean, it's just all over for investors now. And I mean, like I said, we've we've got a few international folks, Philippines, Switzerland, I mean, kind of all over now, too. So a few of those are starting to tick up. And I think partly is that YouTube channel we've got going on now. So that definitely helps with the reach.

TG: Which is awesome. It's in the show notes. You got to check it out, Kenny's all over the place, which is wonderful. So how about some crystal ball stuff, people? You know, I have a lot of first-time listeners that are always on the edge. And you know, some of those folks are like yours on the edge. And it's like, Alright, next year is the year, next year is the year, and then this stuff happens and they get discouraged for another entire year. What are you doing for the future? Can you give me any encouragement?

KW: Yeah, absolutely. I'm probably the boldest person that might be on the show. We're still buying multifamily. Because we have a 3.6 million housing unit shortage across the country. 3.6 million, and our deficit grows every single year. Some states are better than others, some cities are better than others. So you need to keep that in mind. But as a whole, we're way short on housing, there's no way for us to build enough to keep up when you build. So we are so developers, and you have to end up with an A-class asset because the land costs too much material and laborers all cost too much to do a b like working class or below an asset. So we already have this fixed fishbowl B and C class right? But they either you know with more and more fish going into it. And then sometimes they will tear down a B or C Class asset to build A class. So it's either you know, you have the same amount of supply of workforce housing in the B and C world and or going down, but you have an ever-growing demand for that B and C class. We still buy A class we love it. rent growth has been off the charts from a class all the way down to our C Class stuff that double-digit, and that's either in Amarillo, Texas, Longview, Texas, Oklahoma, Cleveland, Columbus, like wherever we're at, we're still seeing and still to this day, like we're still seeing double-digit rent renewals, not on brand new units. It's good. It's insane how much this inflation has actually helped us. The owners, you know, the real estate side, interest rates actually have been a pain you can't deny that but with the interest rate or the rent growth outpacing the interest rate issue that's really not that bad. And at the same time, I've never heard of two people. But for the vast majority of folks that had those bridge loans that had, you know, a floating rate, I know on all of our stuff we're buying, we're doing a lot of bridge, but we also bought rate caps. And so all of our rate caps have kicked in. So yes, we're cash flowing a little lower than I wouldn't have liked because of interest rates. But the damage is minimized because we have these interest rate caps where, you know, if the interest payments go above that rate cap, which they all have now, you know, the insurance company that insured that is paying that on my behalf, right? So you have to limit your exposure to look at the downside for sure and plan for that. But you can't sit on the sidelines because you'll you won't boy, the upsides to some of these sales we've had, we sold a deal last year, I owned it for 13 months and doubled investors' money. And that was so we bought that in 2021. Like, you know, COVID was still around, no one knew what was going on, you know, and all that. And then, you know, so if you sit on the sidelines, you're gonna miss out. I mean, you know, my great-grandmother told my girlfriend now wife, the first time she met her, that is never a good time to have a baby. That's what she told. Like it's never a good time to and it's never like the perfect stars aligned time to invest, you have to look at it, judge it, and then there's risk to it, you gotta take a little bit of a risk. I mean, you have to balance that out with the returns too. So.

TG: Love that. Thank you two quick things. So you get in the right locks. I love calling it one of those. I was right moments. Like I was right. Investors must love that you're hedging bets. So great. Cool. Just wanted to point that out. Second part of it is housing, right? I'm going to act like I don't know, what do you mean, this deficit of housing? How long has that been going on? Were we in a surplus before? But can you explain what that means?

KW: Sure. I mean, I think even up until '08, we still had somewhat of a shortage on Oh, a really rocked the world and of development, it just ground to a halt. And so there's you know, you still have that growing demand, people are still having kids are moving out from home, they're graduating college. Basically, you had a two-year freeze on development from 2008 to 2010, for the most part. So and we've never caught up from that. If you look at the charts, I think HUD has a great chart on that. But if you look at the chart, that kind of ties back to '08 in that big downturn that just basically, you know, squashed 18 months, 24 months of new developments, and that really hurt. Hurt that. And we've never really caught up, like even how much we're building, you know, last year or 2019 2018. All that we were still running a deficit as to what the demand was, it really kind of has put us on an interesting path. And I think that's what partly why you saw how the Single Family Housing jump up so much is because the rents were so so high, they just kept climbing because the country was 96% occupied across the board in June of last year. I mean, that just tells you how much demand that's nationwide again, but still, there's so much demand, our properties are so full of residents now.

TG: And that's for renters, right? Because they can't find a place if you want to explain that a little more.

KW: Yeah, sure. So I mean, we've had folks where we've you know, we've we've increased rents 10% to what the market is, you know that they get a little mad when they get the letter, they walk in and vent a little bit more poor managers. But then they go out look around town to see where they can move, and they come back, shake hands, okay, I'll take the deal. Because I know one, it's going to cause weight, a lot of money to move, and it's pain. No one likes to do that to everybody else had jumped their rates up by 10% and 1%, whatever it was right the market. So folks kind of realized that, I mean, they've they've gotten a lease, and that's only going up by 10%. You take the deal, because otherwise it's gonna be a new rent and a new lease, and it may be higher.

TG: Brilliant. Yeah, good metrics. Do you think we're gonna catch up one day?

KW: I don't think so. I mean, you'd have to skip. So again, you can only build A-class stuff, right? So because of how much it cost and everything and so So really, the A eventually turns to B and eventually turns to C. But that's 1015 20 years down the road from one that a class is built. And sometimes they never turn because they just keep getting better and better depending on their location. So for the middle class, I think they'd never catch up on having enough housing for that. Just because you have to be you have to build a class. There's no other, no other option.

TG: We're coming to a time soon, which I hate but fund managers or folks that are in commercial real estate that do some heavy lifting. It's like kind of manic all the time, like you're thinking about this data and demographics is good. It's like a big buzz and it's healthy, it keeps you up or keeps you motivated. How do you stay motivated? You've obviously done so much, you're younger, you know, and then like family friends, like what keeps you moving?

KW: We crossed the 665 million of assets under management mark here at Wolf Investments, the goal was a billion by 2029 but with these office conversions coming on they're pretty big projects that will be at a billion probably by the end of 2025 of next year. (Congratulations.) Yeah, thank you. That's that's the big goal. It's always been the goal. So I now need to reset the one for 2029 Really, it's, and also to it's our investor so we you know had one of those kinds of a few of these now career-changing phone calls, you know, got a call from one of our investors to hit Kenny I can now check the accredited box because you know, because you've helped me get to that million dollar plus net worth, I wasn't the only syndicator that he was working with. But it was nice to hear that thank you.

TG: It's really great. It's awesome. I love that there's people like you in the universe that are good stewards and fiduciaries and personable, which is new because you kind of you got to talk to people, and they want to hear and I think that's the coolest thing about any of the funds out there. It's like, it's not some mutual fund this that you can communicate with the person, it's like, let me call the fund manager, probably pick up the phone and communicate. I mean, you work a lot of hours, how do you function in the week and talk to all these folks, man?

KW: Yeah, sure, we have a great team up here, we've got 17 employees now on the investment side, and then we own the management company as well. That's a whole bunch of our other employees. But we have a president and CEO, she runs it, she's great. But up here, you know, we keep hiring folks, we're growing pretty quickly. And so we keep we have investment manager now she's our concierge for investors are what we call it, and it's really putting out we do monthly updates on their investments to them, they get a full financial package to kind of break down the numbers for them. And then we host a couple of conferences time each time a year, we do a meet-up here in Dallas as well, every month. So we're still pretty active, make sure myself that I'm available for our investors.

TG: Amazing. I love it love the just statistical part of everything you're doing. That's, you know, it's fun to be able to hedge based on hard facts and math and tangible real estate. So what's the easiest way to get a hold of you?

KW: So the best way is through our website, so wolfe-investments.com. And then on there is a place to drop in your email, it's going to set it prompts you to set up a phone call or in-person meeting here at our office in Plano, Texas. And then after that, we can get you on the investor portal. But that's the best way to contact us. And then I speak at a lot of events speaking tomorrow or this next week. I am in a conference in Laguna Beach, and then we host our own conferences three times a year too. So anyways, the best way to contact us is through there. And we're pretty active on social media as well. Facebook.

TG: Your YouTube channel is all over the place. Great. I love it. Thank you so much for the interview. So we'll have you back before the end of the year when you hit a billion assets under man. (That sounds like a date.) For sure. All the best. Cheers. Thank you for being here. (Awesome. Thank you very much.) Real Estate Investor MBA, Tejas Gosai. We just had Kenny Wolfe, check out our website, Spotify, iTunes, Stitcher, all that stuff. Cheers.

[END OF INTERVIEW]