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Narrator: Welcome to the REI Diamonds Show with Dan Breslin. Your source for Real Estate Investment Jewels of Wisdom.

Dan Breslin: Welcome to the REI Diamonds Show. I am your host Dan Breslin and this is Episode 173 on the US Economic Forecast for 2021 with Paul Sloate. If you are in the real estate investing and building wealth, congratulations, you are in the right place. The REI Diamonds Show is a wide-ranging conversation of all things real estate investing. My role here on the REI Diamonds Show is to seek out and invite guests who specialize in building wealth such as real estate investors and other industry service providers. And then to draw out the Jewels of Wisdom, those tactics, mindsets, and methods used to create millions of dollars or more in the business of real estate. And today's returning guest, Paul Sloate, also CEO of Green Drake Advisors, and as an economist with experience spanning more than four decades. Paul joins us here today to discuss what the economic environment might look like over the next one to three years. And also what we might expect over the next decade or so. And a little later in the episode, I also share my own four personal action items or insights on how I plan to capitalize on these coming economic trends. So stay tuned. Let us jump right in, shall we? All right, Paul Sloate, welcome back to the REI Diamonds Show. It has been a few months, I think it was early in the year that we had last had you on as our economist. So how have things been for you Paul?

Paul Sloate: Well, things have been good. I have had an incredibly busy year as you might guess. The market has provided significant opportunities to invest this year, especially when we had that collapse that was like 1998. And I managed to sneak out of the country in the middle of the pandemic and spend two and a half months basically sitting on a beach in Turkey, which I thought was a pretty good thing.

Dan: Nice, sounds like fun. Hey Paul, Turkish Beach is not really sandy. I mean, they are all rocks. Can you go swim in there or what?

Paul: Oh, well, the water is great. It is rocky, it is very similar to what you have in Italy. The water temperature was lovely and warm. It was in the 70s into the end of September. So it is great swimming weather and the temperature -- the air temperature was up to 80 degrees or so every day. We were in the Aegean so it was lovely that was sort of in the southwest portion of Turkey. They are not too far from the Greek Islands. And the water is great, I would highly recommend it. Turkey is a beautiful country, by the way. Has tremendous physical beauty and the people are wonderful and warm and welcoming.

Dan: Nice. And for anyone listening that remembers Paul being a regular on the show, his hiatus from our show had something to do with that -- the economy going, or I am sorry, the trip out of the country they are going where it was going. But I do want to kind of start early in the episode Paul and I want to thank you sincerely. And maybe some of the listeners would also nod their head as I am saying it but over the past few years that you have been a guest on my show, obviously, I have been buying and fixing up real estate, buying and selling and Diamond Equity Investments has been growing. And when we hit March 15th, March 21st, and we had to shut down start to occur, one of the things -- we obviously had a lot of uncertainty during that period of time but a lot of the confidence that I was able to have as a leader in my company and then to communicate to everybody on my team and even the people that are in my network who are buying houses, we were confident that the demographics favored single-family real estate even in the face of the uncertainty that we had with COVID-19. And luckily, the first fears at least I know I had, I am sure a lot of Americans had in the country was like, "Oh my gosh, if this COVID-19 thing suddenly flares up and is like overwhelmingly deadly to a degree like a lot of people have died now, but if we were dealing with like Ebola type death rates or something, which we did not know if that was what was going be the case early on, things were going to be a big problem." For Real Estate Investors, we would have had dramatically different problems than what we kind of had to deal with so far and I do not want to like say that like I am taking the pandemic lightly and a lot of people are sick and we are going into a wave and it is not a pleasant thing at all, and a lot of people have passed away. But for Real Estate Investors, even during those early first three months when the country was shut down and we kind of had this hanging on but it was through our conversations about the economy and what was coming down the pike and demographics that helped me personally grow to kind of understand a lot more of the economic forces that might have played a role and it allowed us as a company to continue investing very heavily in single-family housing. As a result and we were able to come out of the shutdowns and we are wrapping up 2020 here as we go into 2021 with another -- it would probably be a 40 or 50% growth rate from last year from where we were which is phenomenal on the heels of a 52% growth rate the year before that. So my sincere thanks, Paul, for sharing the perspective of the economy here in America and around the world because that has helped tremendously for me. So, thank you, Paul.

Paul: Well, and it is a privilege, and thank you for your kind words. I am glad that my insights have helped you and many other people to make good decisions in the face of difficult circumstances. And so why do not we talk a little bit about where the economy is? So if we were not having a pandemic and we actually looked at the economic statistics. You would say this is a classic economic recovery. Now, why do I say that? Because typically what leads out of recession is housing and autos. And the other piece is you have a massive inventory correction going into the recession and then you have a massive rebound in manufacturing and the need to rebuild inventories. And that is exactly what is happening in the economy. So from a classic economic cycle standpoint, if you were to predict where an early cycle economy were coming out of recession exactly what you would expect to happen would happen. Now, there is a lot of other stuff going on out there that you have to be aware of. One is the Federal Reserve imprinting tons and tons of money which will ultimately have an impact, and we will talk about that later.
And the other piece of this is that the federal government is running a massive budget deficit and that will have an impact, but we can talk about that later too. But outside of that on what is going on here is the classic economic recovery. And if you were to go back to 2008, 2009, or go back to 0102 for certain sectors of real estate like hotels, what is happening now is not very different than what happened then, occupancies plunged. Now, in this case, we had a recession and we had government-mandated shut down to those assets and that is the problem. Okay, near term.

Paul: And we will talk about what the opportunity might be in hotels. Mall, if we were to take a look at, malls are having real problems because people are not going back to malls. They found they can shop online. I think you will get a rebound in traffic into retail once the pandemic is

truly over which means the second half of next year. But the real issue that the malls are facing which is a fundamental issue is there has been a massive shift going on for the last twenty years from physical retail to internet retail. And that shift is not stopping. So what will happen is that this asset class is going to continue to be under pressure even after we get a rebound in the economy and the ability of people to go out and enjoy their lives. And by the way, it is not just malls that been infected by and hotels have been affected by the pandemic. It is other classes of real estate like mixed-use which a lot of mixed-use have restaurants in them. People have not been going to restaurants. The National Restaurant Association estimates that 20% of independent restaurants will go out of business during this pandemic. And I would not be surprised because if you cannot either erect a tent outside in a parking lot to which you are attached in other in order to have outdoor dining with appropriate social distancing or you have a big takeout business as many of the ethnic restaurants do, you are in trouble.
Because if you are a Fleming's steaks, for example, and your business is really white table, white-glove linens, you cannot get the people in the door. Or if your business is a crowded bar and you make all your money on alcohol, you have a problem. So I think that there will be a significant shrinkage in the number of restaurants. The restaurant that is your vibe though will do very well once people feel comfortable going out again.

Paul: And then of course, in 2022 and beyond, there will be a significant number of new restaurants at people go back into the business or people who had restaurants and had to shutter those restaurants because of the pandemic. Reliquefy themselves and open again. So I think that you have a short-term issue in the restaurant business. In housing, as you know, Dan, I have been very positive on housing since the bottom in 2011. So I guess that is like a nine-year stretch I have been positive. But as you know, in September, for those of you out there who read our monthly newsletter and early December now that we are having this call, by the way. I turned neutral to negative on housing because I thought that the housing market had gotten a bit overheated, prices had spiked a bit, mortgage rates were being artificially held down and foreclosures were being postponed. As we all know normally in a recession, foreclosures go up because people get unemployed and they cannot meet their mortgage payments. The interesting thing is according to the latest statistics from The Mortgage Bankers Association, almost 9% of the homeowners with mortgages and that is forty-eight million homeowners have mortgages, 9% of them are either behind or in forbearance. Two-thirds of them are actually in forbearance. So 9% of forty-eight million is four point four million homes? If those homes were to come onto the market at once, they would swamp the market obviously because we only sell six point four million existing homes in a good year and one point two to one point five million new homes in a good year. So next year as the foreclosure moratorium goes away, there will be issues in the housing market as these homes are foreclosed and come to market.

Paul: The other thing we need to keep in mind with the housing market is some of the artificial demand that people fleeing cities do not go away especially starting in the second half of next year as the vaccine is rolled out to the vast majority of the population and people feel comfortable being in the cities once more. The other thing that people do not talk about much but that it has been in a number of scientific journals about the pandemic is even though we have ten and a half million people diagnosed with COVID the actual spread in the population is anywhere from ten times to twenty times the diagnosed number. Because this is an airborne virus just like the flu, and therefore we only diagnose a small fraction of the actual cases. So, therefore, if the normal is ten to twenty times, we are talking that at a minimum, over a hundred million Americans have had the Coronavirus over the past year, and that would be normal. So herd immunity may be closer than people think in the vaccines are rolling out so we expect some normality by the end of next year. The other thing with housing that we need to be careful with, comes in the form of interest rates. The Fed has held interest rates down a bit and so a long-term mortgage now is a little bit below 3%, two point nine, 5% as of yesterday. If a thirty-year mortgage returns to the midpoint of where it was for the last ten years, by the way, ten years, I mean from 2009 to 2019, the rate on the mortgage would be closer to 4%. That would represent almost a 15% increase in a mortgage payment for the same mortgage.

Paul: And that is really important because the millennials are buying over half of the housing stock and the millennials are taking out big mortgages to do it, just like the Baby Boomers did before that. So while that benefited this year because of the low mortgage rates which pushed pricing and because of the flight from the cities which also added to demand, what you will see next year is you are going to see at least for housing, I think a slow down as the supply comes on at foreclosures. The supply of incremental houses from home builders where orders are up over 20% year-over-year comes to market. And at the same time, mortgage rates go up as the real economy recovers in the second half of next year, and mortgage rates go back to where they were before the recession. And so that is something to just keep in mind, you do not want to be holding a huge amount of inventory and houses come to second hand because you are probably going to have a slowdown and also you want capital available to buy some of the foreclosures that are going to come to market because there will be opportunities to buy units at advantageous prices. So that is housing, in terms of rental housing, while we think there will be a bounce as I stated on the show and as we had stated almost a year ago and before that in our public speaking, we had gone neutral on multifamily housing and we expected them to have a problem as we went into recession and typically multifamily does not do well in a recession. Valuations come down and the cash flow comes down. So not only does the cash flow come down, the multiple of the cash flow comes down.

Paul: But what we saw here was because the Fed manipulated interest rates down. Yes, the cashflow came down but the multiple did not collapse as normal. We expect that as things normalized and as the banks no longer what we call "pretend and extend" and actually foreclose on some of these buildings and some of the major metros, that will put some pressure on multiples of cash flow and push cap rates up a bit for multifamily. So there may be some opportunities next year as for commercial foreclosures occur to buy some of these buildings at lower than normal cash flow because of evictions, because of unemployment, because the people fleeing the city to the suburbs. Try getting a rental in the suburbs. Good luck. There is not much rental available at least here in the Philadelphia suburbs. So as those trends serve come to a bottom over the next year and some of these places go into foreclosure, you are probably going to have an opportunity to go buy some commercial real estate inexpensively. Let me think about what else real estate investors should keep in mind. We think there is a lot of pent-up demand on the travel side. So if there are hotels that you can buy at pretty attractive prices because somebody cannot meet their bank debt, the bank has taken possession of the property, that would probably be a pretty good opportunity because come next year there is a lot of pent-up demand for travel. And travel in our opinion will explode starting late next year once the vaccines been rolled out. So that would be another area I think your listeners should keep in touch. Do we want to talk a little bit about President Biden and what his policies are going to be and how they might impact Real Estate Investors?

Dan: Yes, because I think there is some scary things that I heard when I took a look at some of his economic plans or earlier before the election actually occurred such as an attack on the 1031 exchange amongst some other things. So maybe even a comparison of that and how it looked under the current administration's economic plan versus what it will probably look like if Biden gets in office and things go his way.

Paul: So the real quiet [inaudible] this. Well, okay. So the real question I think comes down to whether the Senate stays republican -- or with a Republican majority is what I mean, or whether you end up with a democratic win for both the seats in Georgia, that is considered a low probability event. So why do not we discuss what the likely outcome is given that you would have a split Congress with the Democratic President? So what I think will happen is they will agree on some basic things. In an interview with the New York Times that was published actually today, he made a very interesting comment because remember, Joe Biden comes out of the Senate, Joe Biden has worked with Mitch McConnell, the current Head of the Senate and Speaker of the Senate, and he knows how to work across the aisle. So he is not going to go for some of the things he would like to because he would not be able to get them through Congress. So what I think he is going to do is the 1031 exchange, for now, I think it is fine. I think the bigger issue will come down to and which is a much bigger issue is the ability to transfer basis. Okay? So let us talk about what I mean by that. So what happens, you make a 1031, you transfer basis, right? But what happens if you were to take that building and you die, your state gets to market up and there is no capital gains tax on the mark-up, correct? Because there is no recapture tax on the mark-up, it just goes into your [inaudible].

Dan: Yes, as it is now.

Paul: As it is now. And the other thing is you can take that building and transfer it into a trust, right? And then the trust owns it and it is not considered a constructive sale. Prior to Ronald Reagan, just so we should all be clear here, transferring assets into a trust was considered a constructive sale. Okay? So if you had a piece of depreciated property and you transferred it into a trust, you had to pay capital gains tax on the difference between the depreciated value and the fair market value. And you had to say we capture up to your original basis. Okay? Which discourage people from putting assets into trust and ultimately made them taxable with debt. So what are the things I think that would happen is I think the 1031 is too built into the economic structure of real estate for them to deal away with it. It would really hurt the value of a real estate and hurt the banking system, and I do not think they will do that at least upfront. They may put some limits on it over time. I think the bigger thing that they will do is they will treat these assets as taxable at debt and they are also going to treat them as taxable as a constructive sale if they are transferred into either a new corporation or into a trust. And I think that that is going to have a much bigger impact because what happens is when an asset -- a depreciated asset is then transferred into a trust, it never gets taxed at debt. So I think that that is one of the issues. The other thing that Real Estate Investors will have to keep in mind is as long as there is a Democratic President, all the Trump Tax Cuts, many of them will sunset, right? Because in order to meet the Congressional Budget Office in OMB guidelines, they had to sunset certain tax provisions in the law after ten years. Otherwise, they could never have argued and so you may have exactly what happened with the Bush Tax Plan, is that when you had Bush you put in a Tax Cut then you had a democratic administration, they just let it expire.

Paul: So there are some provisions that were permanent and there are some provisions that are going to expire, and so you have to pay attention and consult with your accountant as to that but that is likely what is going on. Now, there are a couple of things I think that are going to be different under a Biden for Real Estate. Number one, the administration is very focused on social equity and universal affordable health care. So I think one thing is you will be paying more for your labor to fix up and do work for you whatever you are doing on your real estate. So I think that is thing number one. But offsetting that I think will be a piece related to what they have titled, -- what was titled on President-elect Biden's website what they call Renewing American Leadership and a Green New Deal. And part of this would be encouraging investment into the United States. And one of the ways to do this would be to have tax incentives for putting clean energy for all kinds of things whether it is solar, whether it is thermal, heating and cooling, all kinds of things could end up getting certain tax incentives to encourage them to be used either to the real estate investor or to the home owner. And I think that is something to watch because I think that is something a Bipartisan Congress could agree on. The Republicans would agree on a tax incentive scheme for solar power and certain other areas. What most people do not know is that Texas is one of the largest states for solar power even though it is a republican dominated state -- a dominated state. So I think that you could get something through Congress in real estate that supports the environment but is more focused on incentives to put this in place and provide economic incentives for that.

Paul: So those are the two things Real Estate Investors should watch. The only thing that President Biden said and he was quoted in a New York Times article today where he gave an interview of what he was proposing, and one of the interesting things which will be a very consistent theme between President Trump and President-elect Biden is the following.
I want to make sure we are going to fight like hell by investing in America first. And according to the person who he interviewed, he ticked off green energy, biotech, advanced materials, artificial intelligence as areas ripe for large-scale government investment in research. And then he went on to say, "I am not going to enter any new trade agreement with anybody until we have made major investments here at home and in our workers and in education." So I would say that there is going to be a big push for basic RND for the construction of industrial plans here in the US. And as a result, there should be significant opportunities in industrial real estate. And I think that is true because the US which most people do not know actually manufactures less than 50% of the goods it consumes today. And this is unlike any other major economy which tends to manufacture 80 to 90% of the goods it consumes. And close to a hundred percent of critical goods, it consumes. And I would expect that the US economy is going to look like that in five to ten years. And what President-elect Biden will do is alter President Trump's Make America Great Again into his fight like hell by investing in America first. And so I think that that is kind of where things are headed and could become a major opportunity with industrial real estate and all the infrastructure and logistics that are going to go around with needing to move goods from point A to point B, whether it is warehousing, whether it is light manufacturing, whether it is retail, whether it is transportation, there is going to be a huge opportunity there. Is that helpful, Dan, for the listeners of the program? That is kind of where I see things go.

Dan: It is and I have made some other investments outside of the real estate and one of the things, I turned forty in 2020, so I feel like I have developed this little bit longer-term view when it comes to my investments. And so because I am flipping houses, my time horizon and window is usually three to six months out. I am concerned with what the markets going to do three to six months out. Now, I have gotten stuck with houses, I was trying to flip that I have owned a year year and a half. They could not sell two years waiting for city permits, my job shut down, but that is the anomaly and my average fix and flip is three to six months old or less, right? And I strive to do that very quickly. So I have had this short term time horizon for most of my real estate investing career. And now that I am a little bit older than I was before, I feel like I have made peace with and I sleep better at night by viewing all of my investments as a three to five year whole period at a minimum. So when I buy stocks and I hang onto stock such as a couple of the green stalks that I have invested in one Biden. I was looking like the winner in the election. I started buying some things that kind of had these, you know, the AI and the green energy kind of things that would probably prosper under some of these things that you mentioned. But that three to five-year time window horizon, that window of patients to hold any of my assets if we are talking about stocks, bonds, and even real estate. So real estate rentals of mine, Paul, my rental portfolio when I buy an eight, ten-unit building whatever it is, a three-flat, a single-family house, I mean, it usually is like three to five years by the time I sort out the little portfolio piece and I get them to actually pay the rent hopefully, I have got a couple of middle, you know. And then after that window, the rents have raised, I have done that initial [inaudible] of maintenance or maybe renovation. And now they are kind of on autopilot, they keep going. And I am leading up to give some context there, but I am wondering if it is even realistic to ask this question. We talked a lot and today about what it will look like next year and at the end of next year, is it even realistic to wonder how is the US economy going to look in three to five years or is that kind of a fool's errand to predict?

Paul: Well, here is what I think. Okay, and I am just going to use some broad generalizations here because I think that that is the easiest way to look at it. I have been investing as you know, since the late 70s or early 80s, so I have been doing this longer and for your listener's interest, I will be 60 next year in 2021. But what I believe is fundamentally, economic growth in the United States over the next decade is going to be higher than it was over the past decade for a lot of reasons. There is many new technologies that have been in RND that are coming to market, and these are all going to boost productivity growth which is already started to go up. So I think one of the things we are looking at is a faster-growing economy fundamentally and for good fundamental reasons, that is one, we have all these new technologies that going to drive productivity growth. Number two, the US can invest a lot in the economy to restore certain manufacturing areas back to where they should be and I think that will occur especially in the technology area. And I think that the third piece of this is we are going to have higher inflation over the next decade. Okay, just so you know historically the US vacillates between periods of very low inflation or deflation, right? And by the way, the 1930s were not the only time when we had deflation, we had deflation back in the late 1800s which known as the long depression. So there have been periods of deflation or extremely low inflation.

Paul: So if we go to the late 1950s, from about 1954 onward up to the early 1960s, we had extremely low inflation in the US much like what is going on over the last decade. But what followed once you got into the late 60s and then the 1970s with much higher inflation. The likely outcome of all this money printing and the fact that the government has got a lot of debt on its balance sheet, it is going to be inflation. I think there is no way around it traditionally, the US has gotten rid of its debt via inflation but I do not think that is necessarily a bad thing. Because if you remember under Ronald Reagan when the economy grew really well, inflation was 4 to 5%. Under Bill Clinton, when the economy grew really well, inflation was 4%. So we can have really good growth with inflation. And the US needs really good growth because it needs now to meet the challenge from China, so I think that is one thing. And then the other reason it needs really good growth is to maintain its economic standing in the world. And then the third reason, it needs good growth, is it needs to grow its way out in addition to inflate its way out of the massive amount of debt sitting on the US economy's balance sheet. And I am talking both government and non-government debt. The consumer is actually in good shape from debt but the government is not, nor our major corporations and inflation which many of the issues related to that debt if you could couple that with better real economic growth.

Paul: Because imagine if the economy grew at 3% and you had inflation of let us say three and a half or 4% then you get 7% nominal growth. That means in three years the economy has grown in excess of 20% on a nominal basis. And all of a sudden a hundred dollars of debt against assets become eighty dollars of debt against assets or less. So I think there is a lot of reasons why we are going to have more inflation and more growth, and they all relate to the economic setup. So I am actually quite positive because I see a lot of new technologies coming to the marketplace that are going to transform the US in a good way. I know there is a school of thought out there push by people like Jeff Booth that all this technology is going to displace people. Unfortunately, Mr. Booth apparently did not study history because we went through a period in the 1800s with a massive mass of productivity growth of 5 to 6% as things like an engine to drive a steamboat came out or to drive anything else, cotton gins that were turned into factories for fabric. All kinds of things occurred in the 1800s that drove massive productivity of massive displacement of people. My favorite example is that in 1895 there were two hundred and fifty thousand plus blacksmiths in the United States, but by 1925 we only had five thousand. But the economy grew at a very rapid rate. And so what I would say is that I see faster growth, more inflation, an economy where we are probably going to produce more of our own stuff. Where technology, we are not going to allow to travel as much around the world this we have. So if we think it up here, it is going to be produced here. And I see also which would be past 2030, I think there is going to be a massive opportunity in space which is something that my kids and my grandchildren will ultimately be able to take advantage of. But what I see coming based on the pieces in process is a massive opportunity coming in space to commercialize space in a way that could not have been thought of years ago.

Paul: And by the way, every time we have had a massive investment by the government in basic RND for space, it is spun-off hundreds of new technologies because we needed to solve problems we never saw before. And every one of those new technologies becomes a new industry. And so I am just going to give you a little example of something that everyone in the country uses on a regular basis and sits in their kitchen came out of the Moon program from the 1960s. And that thing is called a microwave. And so most people like me know this but most younger people do not know this the microwave came out of the Space Program. So what I would say is I see some difficulty because you are going to have to deal with debt. We are going to have a crisis in Medicare and Social Security again, just like we had back in the 1980s under Ronald Reagan, by the way, so this would not be the first crisis and it is going to get solved through probably a BARD partisan commission that ultimately says we are going to raise taxes. But outside of those things, I see faster growth, more inflation, a good economy for the entrepreneur, and an opportunity for Americans to see their living standards grow once again. So that is a brief summary of my view given my perspective of having been around and watch the economy for the last forty, fifty years.

Dan: I appreciate that and in closing here as we wrap up, I am going to share my four action items and if you have anything to say afterward on those, that is great. But out of everything we talked about today as you were talking, Paul, I made a bunch of notes here, and what I have is these four. So number one, we are potentially looking at -- we are in a housing, a lot of bubbles end with this period of superheated, super active pricing people buying. So the recent one that we did have was Bitcoin, right, as that thing went up to twenty thousand dollars two years ago. Everyone was getting in and you kind of had all these late huge actions, it is high price action. Same thing with the internet.com bubble back in '99, 2000 before it burst. And as we are looking at this last year, I was wondering the same thing, man, this feels the whole lot like that very late stage. kind of bubble activity a little bit. And maybe it is, maybe it is not but if it is and we are going to have this supply that is going to come online let us say next year and to the year following from the foreclosures. And we also have a little bit of a pulled back to the present moment demands. So when we went into our low point, I think it was in 2012 when the tax credit finally expired or 2010, my bad. When the Obama tax credit for first home buyers expired, we had this vacuum for like two months of existing home sales that went into a -- it went into a deep trough. And what we had actually happened during that was the tax credit pulled forward any of the bonds from people who are like, "Hey, I am thinking about buying a house in the next year or two." The demand was pulled forward to right now because the tax credits going to expire, better make everything move heaven and earth to get into the house now.

Dan: And I think as you describe the city flee kind of buyer, the millennials who are buying, anybody who is in a position to buy right now is buying because they want to lock in this historically low-interest rate. So full 15% lower mortgage payment for the same price house at the average rate. So the action item is when we are in a slower market with more inventory, what I see typically, personally, in a single family housing space is that renovated houses of a high-quality, they sell. And any kind of housing that is a little bit more dated, more of the handyman special kind of thing, suddenly when the supply comes on, foreclosures come on, usually, these are the houses that need work. So if we are in the single-family space flipping houses, fixing and flipping houses, the one thing that we can do to help mitigate our risk is to get in and out of the project as efficiently as possible. But also make sure that we are designing a high enough quality product to be accepted by the market in the event that more inventory comes on, you must stand out with design. So that is my own number one personal action item. The second action item I have has to do with interest rates, so the interest rates are historically low. I am in the process of refinancing anything, if it is a one-point difference that I can get on any kind of a mortgage, I am trying my best as long as I do not have prepayment penalties on my existing mortgages to refinance them and lock them in wherever possible ideally for as long of a term as possible. So that is my second action item is to take advantage of the low-interest rates. And then my plan is okay, let us welcome with open arms the inflation that is probably coming down the pike for the other two.

Dan: And my third action item is to hold all of my assets through that because if the dollar is weakening, essentially the sales of the companies that I own and the rents of the properties that I own. And I do not own thousands of properties so I am not at the whim of let us say the economic forces of buying into REITs or something where I have more of a market of scale minor, more of a direct very carefully selected assets that I am tightly managing but I am seeing the rents climb up. So now I am paying off my own debts on my property which I have locked in at a lower interest rate and I am paying those off with inflated dollars a year or two years, three years from now ideally. And I am happy that I did buy, you know, then being back then if I am hanging onto my assets. When I say hold on to my assets as well, again, buying into any kind of company stocks, any other kind of passive investment, I want to hang on to those for three to five years and if the inflation comes, ideally it is inflating the price of my assets as well when I look back and that is a way for me to kind of take advantage of that current system. And then my fourth action item is kind of the same one as my third which was hold all the assets but it was more of a targeted buy and hold strategy. So we talk a lot, you and I when we get together, Paul, we talk a lot about like a broad sweeping, here are the effects, we kind of take the country at large even the world at large. But you got to remember, all of us who are Real Estate Investors at the granular level, and what I mean is we are actually buying the dirt and the bricks ourselves, and we are going to closing ourselves, it is not that we are investing in a fund. But when we are investing in real estate at the granular level, take a look at the micro-markets, right? No matter what area we are in for the most part we can often kind of dissect and find these certain zip codes, tracks, portions of the city that are kind of in the path of progress or maybe even out in the suburbs and the path of progress. But there is certain targeted niche markets that still will work for a buy and hold and will still see increased rents. And there may not be this type of niche in every city but the good news is that you can also look around the rest of the country and find a city that does work. So that is my own action item is to pay attention to very targeted buy and hold to kind of get ahead of this expected inflation that might come so that I can in a sense capitalize on it. Sound like a couple of good action items, Paul?

Paul: Yes, those sound all good. I would agree to lock in long-term money today as much as possible at low rates, especially if you have assets you are planning on holding with a ten-year time horizon. I would definitely because you are going to benefit from inflation over the next decade. And I would agree that all real estate is local. Okay, and you really need to know your local market and you need to know which areas you should buy-in, which areas you should not. You should know where the development is coming so that you can buy ahead of the development. All those are really good points. And I agree with you on the housing market slow down. If you have a property that somebody can buy and it requires no investment when they buy it, it will sell. There is no question. But I think especially when it comes to millennials there is this kind of trend that they want everything done for them. And I remember my first house and my first house was a fixer-upper and I did a lot of that fixer-upping even though I am not a real estate guy. And so I do not think that that is necessarily the approach of most millennials, in fact, I know it is not because statistically, I can show this and I also know this anecdotally from a lot of people.

Paul: So part of what you have to think about is we are going to go into what I would call more normalized real estate market were especially for individual homes. It is going to be more like it is going to take a certain amount of time on the market. What is the buyer going to have to do after they buy the house? Is that a couple of minor things or is it a real investment? And I agree that the houses that require real fix up are going to just sit on the market longer. So I would say that all portions of your strategy are valid given what is coming. And the only thing I would add to this, Dan, is that I would keep just a pool of capital sitting around, I do not know, 10% of your capital, 20% of your capital sitting around for opportunities that are going to pop up over the next twelve to eighteen months. Because a lot of the foreclosure activity has been delayed, a lot of the commercial foreclosure activity has been delayed and it is all coming. And once it comes, some of those properties will be very attractive and available at extremely attractive prices. So that would be my comment on what you said there.

Dan: All right, so how can listeners get more info about you, Paul, or Green Drake Advisors?

Paul: Well, they can always get more info about me. They can go online, search me or they can go to our website www dot greendrakeadvisors dot com. And we always have a Contact Us form on the website that they are more than welcome to fill out. Or they can call the office here at 6-1-0-6-8-7-7-7-6-6 and they can set up an appointment to chat with me. And they can also request our monthly newsletter where we put out our words of wisdom for people. And those would be the best way to get in touch with us. And I would be happy to talk to any of your listeners and give them advice on specific things they are thinking to do.

Dan: All right. Well, hey, once again, I have had a great episode, got four pages of notes here myself. I thank you, Paul, for coming on the show.

Paul: Thank you for having me, Dan. And I look forward to doing a catch-up call sometime in the middle of next year.

Dan: That will work.

[background music]

Dan: Low-cost capital is the fuel of any volume real estate investment business. As a real estate investor, I am sure you are well aware these two facts. First, your business is driven by access to capital, for starved, from a lack thereof. And two, you make more money when you reduce the cost of said capital. Whether you are looking for hard money loans to fix and flip houses, rental portfolio loans, or even a line of credit, lending home offers the most competitive rates in the market currently as low as 6.49%which is good for fix and flip single-family loans. I pay 10% myself at fund rehab deals dot com to my private investors. So at 6.49% if you like that interest rate, go to REI line of credit dot com. Even if you are not currently in the market for a loan at this very minute, I encourage you to still go through that one minute sign up process right now, so you can get on the email list. That way once you are ready and you have a deal or a few, their name is top of mind. Plus as a bonus for signing up through REI line of credit dot com, you will receive a free iPad when you close your first loan. That is REI line of credit dot com. And thank you for tuning into the REI Diamonds Show. Remember to review and subscribe on your podcasting app. Just search REI Diamonds and click subscribe. Remember to also check out the episode archives of wealth building Real EstateInvestment Jewels of Wisdom at REI diamonds dot com.

Dan: My name business Diamond Equity Investments is that of buying, renovating, and selling houses. Two hundred and twenty-three deals closed in 2019 and two hundred forty-seven houses bought and sold so far in 2020. We currently have another one hundred thirty-five houses in inventory either under construction, for sale, or sold and awaiting closing. So here is how you and I can do business. Number one, we operate in Atlanta, Chicago, and the Philadelphia region. Before we begin construction we offer our houses, our inventory for sale at wholesale pricing. Go to deals with ROI dot com. At that site, you can also review our current career postings when we are looking to add team members or sign up for the local buyer's list. That site again is deals with ROI dot com. Number two, if you are an accredited investor and you enjoy double-digit returns on your capital and might consider passively funding a deal of mine, go to fund rehab deals dots com and sign up to receive a private mortgage investment opportunity to emails. And number three, finally, if you have a deal for sale in either Atlanta, Chicago, or the Philadelphia region, please send me an email with the details. We have reached the end, my friend. Next up, we have Jacksonville Florida Real Estate Investor and Turnkey rental property provider, Greg Cohen, joining us with his unique perspective on what is happening with Florida's residential real estate market. Until then, keep closing deals.

Narrator: Thank you for listening to this episode of the REI Diamonds Show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www dot REI diamonds dot com.

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