Male Voice Prompt: Welcome to the REI Diamonds Show. With Dan Breslin, your source for real estate investment jewels of wisdom.

Dan Breslin: Welcome to the REI Diamond Show. I am your host Dan Breslin and this is episode 186 on the land entitlement process for multifamily development with redo soon. If you are into building, well, real estate investing, you are in the right place. My goal is to identify high-caliber real estate investors and other industry service providers, invite them on the show, and then draw out the jewels of wisdom. Those tactics mindsets and methods are used to create millions of dollars and more in the business of real estate. Reed is a returning guest of the show, joining as first back in 2018 on the eve of his nine-point five million dollar capital raised for a deal with a ten million dollar projected profit. So we are going to get an update on how this deal is going during the episode. Reed's career started as an engineer, working around the world, building large projects including the infrastructure for the 2012 Olympics in London among many others. So he and I are going to focus on this side of his skill set during the discussion today to include the land entitlement process as it relates to multifamily deals. Ready to get started?

All right, cool. Welcome back to the REI Diamond Show, Reed Goossens. How are you doing today?

Reed Goossens: Good, I am mate. Thanks for having me on the show.

Dan: Yes, for sure. So for context for listeners who may not have been here back in 2018, you are a returning guest and our topic was raising nine point five million dollars with a projected profit of over ten million and so I guess we will start there with a little bit of an update of how that went. Did the deal closed and whereabouts are you in that deal, Reed?

Reed: Yes, so 2019.

Dan: It was 2018. Yes, maybe...

Reed: Okay. Yes. I am trying to think it because I remember the deals by the equity raises.

Dan: Okay, all right.

Reed: That would have been I think deal number three, and we are at deal number 12 now, so it is completely blown up obviously in a good way. That specific deals going great. One thing I will probably just look back on if I could go back in time would be do not do fixed-rate interest rates because interest rates are now really low. We did back in 2000 and I think those early 2018 it would have been a four-point five-ish 10-year treasury Freddie McLon. Yes, I should have got floating. Lesson learned but you make the decision in real-time and yes, will flow all those people out there, do not be afraid of the agency floaters because they are good product. I remember back to the time I was sort of being newish newer into, I know three deals in saying for our investors let us just cap it and let us just do a fixed rate for 10 years and get 5 years interest only, which was still a really good deal but just looking at where interest rates are today. You are like, wow, I could be making a lot more cash flow. Yes.

Dan: Yes, true enough, but does the interest rate fluctuation taking on now create a larger risk profile that I am sure you had in mind when you are calculating risk on the previous deals. I mean, would that be the same wise move today or lock-in in the low-interest rate now, like how much lower can they go?

Reed: If you can lock in a three percent today, yes, for sure. Definitely lock in and go for 10. That is one hundred percent it just that I did not, back then I thought interest rates were going higher and so four, I think only was four point three five percent or whatever it was, whatever locked in. I thought they are going to six. I did not think they will be going back down to three. So hindsight 20-20, you can only do what you can see in front of maybe right then and there and we thought it was the best thing for the deal and it still is the best thing for the deal. We have just executed on a two-point two million dollar supplemental loan on that deal because it was a Freddy deal you can go back and it is kind of acts like a refile but we went in with such low leverage that we went and got more money out of the deal to keep going with that capital expenditure, and it is 5 years interest only. We are really happy with the deal is setting today and will be in the portfolio for at least another 3 to 4years. So still got some time on it.

Dan: Nice, nice. Yes, I was listening to a multifamily investing podcast the other day and one of the members that was a, I guess on the show, I cannot remember what show it was, had 4 or 5,000 units. He sounded like he was probably in his late 60s or early 70s. So he had this nice solid multifamily career and he was looking back and he said that around the area now from what he is hearing, like the big names Blackstone and these are private equity Wall Street types. They are not afraid of the floating rates. They do not think that rate risk is going to be a realistic threat certainly at any point in time 2, 5, 7, or 10-year term that these big smart money investors are supposed to be doing business. So he kind of shared the same sentiment as you and just did not view that as much of a risk. I mean, who knows who is right. So 12 deals in what? What is your exit strategy? Do you end up selling these at any point? Have you sold any of the deals that you have done or are you still in hold periods on everything?

Reed: No, good question. We start our first deals were in 2000, 2016, early 2017. I have been involved in multifamily as a Co-GP prior to that. So probably 2 or 3 years prior to that early 2014 I got started, but I really started my own shop at the end of 2016. So I have been into the 8 years in syndication space and then in terms of your exit strategies, yes, we are actually coming to exit a couple of deals right now, and they are the deals that have the most flexibility on the debt, right? The deal we just spoke about that it was speaking to you back and previously in 2018. I cannot exit that deal because I have gone over big prepay, right? Unless someone to come and assume the deal, the deal is not sucking wind by any means of making money from my investors, making cash flow. So just keep it, we write out the prepay, but we have another two sets of deals. The billboard as a portfolio and we have to bridge on those deals and we have had them for about two and a half years now. We are going to, we sort of popped your head up thinking, okay, we can refile here or we can sell. We popped her head up and did a bit of an off-market type of shop around and we have got the number we wanted to hit and for this time period they give a good pretty solid return for investors and we decided to execute on the sale. If no one had taken bit at the number we wanted, then we would have gone for a refile, but the opportunity to exit at missable points along the deal is exactly what we assess every single day on over to go but on a very consistent basis to understand where the markets out and particularly with cap rate compression, compressing as interest rates continue to go lower that is you seen that shock wave across the country in terms of multifamily particularly in our area of Central Texas. So yes, we constantly look at what is the best opportunity to exit for deal for investors. A little bit selfishly, we as a company, myself, my business partner Andrew and I, as we are growing to 12 and hopefully going to go double the portfolio in the next 3 to 5 years, people are starting to ask. Where is your schemes on the wall, where your runs on the board, and that is where you go to start pointing to the cycle deals, and how would it go, what was the returns, and we are really happy to say that we have finally come into the first set of deals that are selling and got to make a nice healthy little profit for all our investors involved?

Dan: Nice. So I am always curious, I do a lot of single-family and when I got in the single-family business in 2006, there was all mom and pop localized investors and then 2008, 2009, 2010 came and we saw the Blackstone and Cerberus and a lot of these big funds put together a lot of money, you have divi homes out here and there is this trend toward institutionalization of single-family homes. These are typically kind of the scattershot, very difficult to manage, very difficult to roll up assets single-family, which is a lot of the reason that a lot of people will gravitate toward the larger 100, 200, 300,000 unit apartment complexes. So I am curious, is the same trend occurring in multifamily where perhaps the buyers for your stabilized asset at this new profit level. I mean are these institutional buyers, or these entrepreneurial funded buyers just like yourself who it is 4, 5, 6 partners cobbled together a team and then put together 12 or hopefully 24 deals in the course of the next 3 to 5 years. Who are the buyers basically?

Reed: Yes, good question. So I think to answer that question. You have to also look at what you just said, the historical trend of institutional Wall Street money looking at real estate as an alternative asset. I wholeheartedly believe and a lot of these podcasts that real estate, it are not an alternative asset anymore, and part of the reason particularly commercial you are seeing a lot of this compression in the cap rate because it is a physical asset you do have the con-- the scalability of it in terms of buying a thousand units and you do not have to have a thousand different individual roofs or thousand different individual foundations that you got to deal with that in the single-family space, which is what Blackstone, or black rock and blackfish and whoever black something else, whatever. What those guys probably saw in back in 2008-2009, was that management piece was really, really tough but in the commercial side multifamily, as we have continued to be a nation of renters, as the wage increases a room pretty much remaining stagnant, as affordability continues to go up, and be kept in years become an issue, multifamily is still a really, really attractive vehicle for living and also for investing even with compressing cap rates. So I do think a lot of institutional dollars in the last 8 to 10 years has started to really, really big players in the game. To answer your question of the buy and pull, yes, we are still working. We are still selling to a group that is a more entrepreneurial like we are because we have actually left meat on the bone. Running two and a half years into our business plan and we have the flexibility of selling right now. We have only done thirty percent of the units, but we have completely done the exterior. We have done the leasing center, we have done the clubhouse, we have done the gardens, were rebranded it, we have done the whole heavy lift, we are running three percent of the unit. So there is still more meat there that someone else can come along and execute, right? For us as a seller, we can sell as a value add with meat on the bone at a lower cap rate, then I can sell it as a stabilized deal if I would done a hundred percent of the units. For us, we are getting a better bang for our buck by selling it with a bit of meat on the bone rather than going and trying to do with a hundred units, of hundred percent of the units and then sell it at like a 5 cap or a 5 and a half cap. So yes.

Dan: Got you. With the institutional buyers say, "Be a better fit of a buyer at the end when a hundred percent of the units are updated, it is stabilized a product with market ranch versus any of this entrepreneurial having to finish the renovations. It is more passive for the institutional investor at that latter point." I think, right?

Reed: You look. The tricky little sacred here is that off to 7, 5 to 7 years it is a value add for anyone else who wants to come along.

Dan: There is enough.

Reed: Those original rehabs, you have done the probably 7 years old now, they need a lift anyway. There is always going to be a value add. To your point of institutions, they do not like to do a lot of hard work so they are going to go and probably buy you more 2000 builds, 2010 builds and it is why we have currently starting look at now. We do not want to look at the 80s product anymore because it is really old, not that we will not entertain it, it just that we know from experience, there is a lot more skeletons in the closet. They are coming up to 40 years of age. There is a bigger, I can buy-- if I am buying a 4 and a half cap on 80s product, or can buy a 5 cap on 2,000 product. I am going to buy 2,000 products. You know what I mean?

Dan: Yes, absolutely.

Reed: Even though small stabilizer might not have as much meat on the bone. I have less risk and I can still make a really nice spread between it where interest rates are and then hold it for a little bit longer. So instead of a 5-year-old, maybe hold it for 7 or 8 years old and get a bit of that value add towards the tail end because the units will then start to be old. I would rather do that than go and buy 1980s asset which had boiler systems and the old roofs and issues that we are now seeing in we spoke a little bit offline before we started the recording. You know what is happening in Texas right now with the snow. These assets that are build we have got some newer assets in our portfolio that appearing just fine, but the older assets or built in the 80s are not going so well. It is also a swings and roundabouts and for me, as we progress and we get up, we move further down the line. I think that was built in 2000 or the late '90s is now going to be a value add for me as a buyer and thus is going to be, I got some meat left on the bone and some more juice to squeeze out of that rock.

Dan: Yes, it is funny. I am laughing because I have the single-family thing that is our space and we see Atlanta specifically. We are in Atlanta Chicago and Philadelphia. Atlanta has the fund buyers, the Blackstone, this one, that one they are buying there, they have that is almost the same kind of, it is not quite as new as you are describing where it is built in the 2000s but stuff that is built in the 2000s that is hot fun products. Stuff that is built in the 90s, still pretty hot fund product. Stuff in the 50s or 60s, some of the funds will touch it but most of them have a buy box, it has to fit where they take a pass and I laugh because I buy like small multifamily stuff for my own portfolio and I bought an 8 unit building that is probably built-in 1920 or 1930. I am big, a man. It would be great to have something built in the 90s and we did the roof last year and the roof had, I do not know 6 to 8 inches worth of layers on top. They just kept going, going, going and we had a lot of snow here, I think 45 inches in the Chicago market literally. I was thinking to myself, I am so happy that it was like a sixty thousand dollar roof. I am happy, I did not cheap out on the roof and they could have put a layer over top the guys, like, look man, this is going to get really heavy if there is snow and literally I mean it is all over the news and Chicago that roofs are caving in on people left and right because he got 13 houses...

Reed: [inaudible].

Dan: Yes, exactly. What we are seeing in Texas is blowing my mind. So maybe you want to kind of touch on that, I am sure everyone has seen it in news, frozen pipes. The region is just not engineered for the type of weather that has come through there and you own and are bullish on the Texas market, so you had this real boots on the ground, real-world experience. Why do not you just talk about that for a few moments here, Reed?

Reed: I want to also add that Texas is well is you do not find as many 1920s product like you do and say the Chicago's, all the New York's, the Boston's where these really historically all the cities, Texas is relatively noticing you of but the large multifamily was the boom was really in the 70s, right? The 70s that is it from a lot of construction was down to the garden-style apartments. To be honest, they were built okay, but they were not built for snow, they were not built to weather, they were not weatherizing, winterizing I should say, pipes under the ground, they were not digging for feet down to get below the frost line to build your pipes. There are just little things like that that it just and then, on top of that you have got an infrastructure system because I think, I do, I figured out that Texas is on its own grid, power grid, I am like...

Dan: Yes.

Reed: Unlike the rest of the country and that is not weatherized either, winterized either. So that is causing a lot of issues. I know the newer build product we have got is faring better just because of the building codes have come up to speed but the 1980s product is not faring as well because of one the age but to the way they built it back in the day. So to answer your question, yes, it is a little bit. I am flying down on Sunday to assess the damage. I have got a call here in 45 minutes to sort of go over what is happened. I think touch on wood. Our 2500 units are going--you know, we have got a handful 20 to 40 units that are going to be issued, but we will get that covered by insurance. I have heard people, whole buildings burned down because people had nowhere to warm themselves and then put, starting fires in the living room. There is this dumb stuff like that. So hopefully we do not have any of that. I have heard the electricity is come back on at all our properties, which is good. Water still a little bit of an issue in Austin. I have heard people boiling snow. I have heard we had to hire a bus on one of our assets to just sit on-site and so people could walk inside the bus and keep warm. Overnight because they were without power for nearly five days. It is a little bit, for someone living in Chicago, or New York, or Boston, you are laughing, right? When you literally are not set up for it and potentially, there is some blame on the state level that they should have done some more for to weatherize their infrastructure, but until you sort of living it you cannot really say, well, hindsight 20-20 again, I should have done that but maybe it will put them in the way people are building now moving forward will be completely different to how they were building over the last 20 or 30 years. To answer your question, it is still sort of in the thick of it, but I think we will get out of it, okay. We all see you next week when I finally get boots on the ground.

Dan: Yes, true enough, true enough and I wonder how much you mentioned like the stuff in the 80s is not fair as well as the new build and for context for people who do not know the 80s was kind of the Mike Milken bond driven cheap market where money you know for certainly one of the earlier times in my own recent history became super cheap, super easily available and whatever we saw in a 2000 to 2004, single-family housing market like that loose lending standard that we all remember, that is what occurred during the 80s, so I can only imagine that there was some slipshod, hurry up, throw it up, get that refine, keep it moving, like yes. I do not think I am going to touch any of the 80s product either.

Reed: Yes. Then that is it. That is it the difference rather than this the standard of building in certain areas and to your point just bang it up, bang it up, bang it up. If you ever go to a Texas multifamily, some of them are built in the hallways, they are not air-conditioned or not conditioned spaces and they keep them open to for the heat, but also now it has now come full circle with the winter. The hallways do not, they are not closed off to the elements. Again, things that you think of suited for certain climates, but as things change it just like, that was done, was not it? We should put doors on it. We should put air-conditioned space.

Dan: Yes, true enough, true enough. So do you have a history or a background that I thought I saw somewhere on your profile that you were in hotel construction originally, is that?

Reed: The Milken Structural Engineering, I built a lot of product across the globe. I worked in London on the 2012 Olympic Games. Back in 2008, I have built stuff in New York, I have build stuff in LA. I have build stuff over in Australia. That is my background. So I do come at this with a different lens than the average investor. Understanding what things the building codes and how to be compliant with building codes and mention the frost line before like 4, 5 feet below the ground in New York is like where you got to put your foundations because that is where the frost line is. So little things like that you pick up along the way and then as you go from state to state, different climates, you notice things like when you are in Hawaii, you do not have the same type of construction as you do in Boston. You know what I mean? It is just for the different climates, but as those climates change, yes, you sort of think, oh, I should have built a little bit different. It is too late.

Dan: "Shoulda, woulda, coulda". Yes. I am always like, it is like a whole another layer to the read goes story to hear the structural engineering piece and I look at like my own background. One of my earliest tools or I guesses toys were like tools. My dad was an electrician. I had a screwdriver and a hammer and wire strippers and I would like wire-up outlets for fun at 5, 6 years old. Not live electricity but growing up on the job site, the construction site I had about a year and a half mechanical engineering and it is, I take it for granted, but I can kind of see the different layers of house renovations and have got this like visual one. I can hand draw my own blueprints when I need to. So I can look at plans or prints to some level and kind of know what I am looking at or just a level of design. I am not an architect, but certainly, if you are flipping houses were, if you are building, you are doing new development, a lot of the creativity, a lot of the layout, a lot of the strategy of the build comes from the mind of the person who is kind of directing the operation. It is not the contractor who designs kitchen. It is not even all the way like an architect. You cannot just hand over the piece of land say, “Okay, draw it.” You actually have a lot of input and a lot of decisions as the developer and the captain of the ship when you are building or even when you are renovating or turning units, or you got to be the one making the decisions and the person who is operating the deals, the background, it is very telling for me. I am sure you too because you have a podcast is very telling if you spot these like, histories of people who came up and are now doing what we are doing whether that is multifamily investments syndications or whether that is real estate single-family or building million-dollar homes, but it is very telling to see the history that leads up to the current moment. Let us shift gears real quick here. Tell me about your most exciting or most challenging deal since we talked in 2018. So in the last 2, 3 years, what is the one that you are like, either you lost the most sleep about this one or maybe you were the most excited, this thing finally went to settlement, or we finally got our certificate of occupancy after all this work? Which deal is that, Reed?

Reed: That is a good question. Look, I am pretty excited to say that we are getting the two assets were selling right now. They have been great deals for us, very good deals, but they have also been-- I am excited to see to go full circle, right? You do not ever trust yourself until you have got that run on the board if that makes sense. You sort of you are being tested against still what is your track record. Well, I have got all these deals. I am paying for further returns and I am hitting all the-- okay, well, but the exited. Oh, no, I have not. That is sort of been like, so I am excited about that. I am excited to show the investors who put trust in us to invest alongside of us that we can-- we are good steward than money. We have taken it seriously. Even to this day, I do not take a salary on my business. When we close deals and the money from asset management actually goes to keep the lights on, in terms of paying asset managers and analysts in keeping office space. I am very still much an entrepreneur and that, I eat what I kill, but I also take for very seriously my job of making sure people have trusted I am younger of the younger generation. I do not have gray hair and people trust me with their money and I am glad that I can return it with a smile on my face and know that I have given it my all and they have got a good return on top of it that just that sort of sends, it is what we got in the business to do. I do not know that if answers your question, but that is sort of what sort of not keep me up at night but that is what makes these making me most excited right now. Because I know from there, the sort of the snowball is hurdling down the hill because it is going to pick up more and more momentum because people want to start investing again. They are going to talk to their friends and it just going to keep getting more and more traction. So that is pretty exciting for me.

Dan: Yes. Congratulations. The exits must look like the finish line of the marathon and I can relate in a shorter timeline. So were flipping a house, right we are borrowing 100, 200, three hundred thousand, whatever it is. We are doing 40, 50, sixty thousand dollars, a hundred thousand dollars worth of construction, whatever it is and we are on-- we do not have the along the way cash flow, so it is not just a long-term thing. It is a complete speculative investment. All the house flippers are not on their head. Yes, of course, real estate investors. Man, it is like, I do not know, even to this day we did 283 houses in 2020. We do not like 30 or something.

Reed: Wow.

Dan: Certain ones, I do not sweat at all. Certain ones, I am like feeling the pressure at all times and we have owned. We have owned one. It is going to close for a year and a half. We had a lawsuit, every doing wrong. We are going to lose like a hundred thousand dollars on this thing and to see that one get to the finish line and then gone. Even early on in my career where it was like those first couple flips, it felt like an eternity to go three months of construction. Month and a half on the market, I mean, I am a motivated seller by the time that thing comes surround. The first off, I take it, come on, it is old. It is like 6 days on market. Again, I can relate to that and then kind of seeing the exit and I think that is probably why I personally do not do this indications and put together, my own apartment deals and I gravitate toward owning that. Like a building, I told you about the smaller portfolio on my own because I do not have the pressure that supplied by having the investors who entrusted me with their money on those. So there is no need for me to sell it. I can kind of sort of leave it out of sight out of mind and I can sell it if I need to, or not sell it but there is no pressure for me operating and owning. My own personal portfolio, like I just heard you describe. It is like these investors are kind of look for the money. You know what I mean? Starting out of freedom, but maybe I do not got the upside there as well.

Reed: You are saying all the right stuff, like that is the point of going and doing other people's--using other people's money used to grow my own nest egg to eventually one day have a 200, 300 unit property by myself, right? I also know that being a steward of other people's money, I am more on top of that than it would be if it was my own deal. You know what I mean? Like, it was just about Reed Goossens on 200 deals. Yes, it is selling. Yes, it is operating. Where some other people's money, I am like, "No, I need to know everything that is going on because I have got a hundred fifty investors who are sweating on me, making sure that that I do my job as a sales going to do." So it helps you rise to the occasion. It helps you up-level your game and something that I very grateful to have this experience and in the beginning, it was very daunting to take on money like that. Over time you build that track record, you build that trust, you build that transparency and things will go wrong, right? You mentioned a lawsuit. I remember flipping my first house and my dad was my investor and I lost a bunch of money because I have to make him whole and had to give him a return to his money, right? I had issues with my GC as well. We just had Covid, we had to tell investors through Covid. We are going to have to pause distributions. Things will throw, the market will throw issues at you every single time. It is making sure that you are down, you got your feet on the ground and your investors know that you have their back and you can do everything in your power to make sure that you can navigate these uncertain times. That is exactly what we do and you cannot sweat that, oh, I wish I could have done this better. Also, I wish Covid did not happen or wish the snow did not happen. It is like that is what happens, things are going to-- excuse my language, shit is going to happen and you have to navigate through it. That is your job, and that is your job is syndicated to make sure that you are steering the ship in the right direction and I can stand here today to say that we have come through Covid pretty much knock on wood unscathed. There is a little bit of delinquency issues but that was the biggest sort of stripes on my shoulder is coming through Covid as good as we have done. It is a credit to my team, it is a credit to everyone who is pulled forward and we have had some issues throughout it, do not get me wrong. Again, it helps you put the hairs on your chest and helps you know that you have got the mindset to push through uncertain times and challenging times to come out the other side and not lost people's money. Yes.

Dan: Yes, it is ironic that you describe it that way. I mean it is, oh, yes, things are going to come up with any more. Now, Reed, there was not much that came up from 2012 to 2019. It was relatively, it was so flat in the stock market, there was like no major issues. There was no, like, the mortgage crisis was very media-driven and a lot of people lost their homes, but the uncertainty it came along with Covid was this unique, holy crap. I might even catch this thing and die. It was really uncertain and thank God it did not-- I mean, at least there are a lot of people who have lost their life and it is a serious thing with Covid, but a larger amount of the country was stable enough to continue paying their rent, that is something I did not anticipate. I thought, oh, my gosh, I am glad I did not do the apartment syndication thing now like I am, man this is I am looking. I had the same issue that you described. There were a couple of people who did not pay the rent and I was very proactive with my management company about trying to work out some things and there is maybe a couple who are still about to catch up with your tax return, they found some other work, and I am happy to say, I mean, we had a couple of deals we bought where we sort of had some squatter issues, but most of the people cash for keys to leave. They just abandon the rental on their own. We have one out of all the deals and all the markets we do. We have one deal literally where they are like squatter's rights professional tenant and we are probably going to fight him for another 9 or 10 months. That is not bad out of a couple of hundred houses that we have been in the process of you know.

Reed: I will add to that. It also, 2008 was very American issue, right? It was very US issue. Covid is a global issue, right? There is rent due in Australia, there is rent due in Mexico. There is rent due in Europe, there is rent due in Kenya. It is due all over the world and people have lost their jobs all over the world. So we are all in the same boat. It was not just specifically related to America which then triggered around the world but it happen 2008. So that is another level set playing field that you sort of have to also understand that you know in the victim mentality of, oh God poor us like or poor me. It is like, no, this is happening around the world and we have got to just get up, dust our knees off and do the best we can. Yes, you are going to have issues with some tenants. Make sure you are going to have the-- you want to keep their best interest at heart because a lot of people lost their jobs not from there any fault of their own, but from the fact that the place is shut down. You sort of have to come with the little bit of sympathy coupled with the lessons learnt from 2008, stimulus checks were a lot more quicker this time around than they were last time around so that also helps and that also gives confidence in the market and then you have got other things like, multifamily, yes renters.

Some renters have become professional squatters, but compare that to retail or compare that to hotel or hospitality, multifamily on the commercial side is looking pretty darn good and is fared a lot better than some other places that have not even opened yet. So overall and that goes back to a point where saying earlier is the compression and cap rates and why things are so frothy is because of how well multifamily in general has sealed through Covid because to your point everyone thought, oh gosh, as we did in lender much. All right, here it comes. We are going to have fifty percent about two and a half thousand units just not pay, we are calling the banks get ready, settle up. It did not happen. Again, which is good. I go back to just not being with the pity party, understanding it is a global issue, and trying to sort of lead with a people-first mentality. I think that for us at least we came through relatively unscathed and I am proud to look back and say yes, we did come through and we owned our stripes for it. So yes.

Dan: Yes. I mean, we are talking about money, money is a renewable resource. A lot of people lost their lives here. A lot of people lost family members. I mean, it is like...

Reed: It could not be there the funeral. Some of guys goes off to a hospital, like dying, sorry, you cannot come in, that is just it is shattering, it is crushing, soul-crushing. So yes, exactly.

Dan: Yes. So let us shift gears again. I thought I saw your Instagram post and there was new construction going on there. I thought it was a Texas Steel and you had mentioned entitling land. So entitling land and doing zoning, I would imagine from people who taught me the business there were people who would describe putting a piece of land under contract, taking it through the entitlement process, and then selling the contract the package deal on the flip side and making a nice chunk of money, and they probably have one hundred thousand dollars in soft costs there, attorney fees, architects, etcetera. So it is not a zero-risk kind of a proposition. I am curious, have you done some entitlement of land, have you built some new construction multifamily? What did the process look like in a specific of that deal where you had to add capital and begin taking layers of risk is done?

Reed: So my background in instructional engineering I should quit engineering in 2012 and moved over to the development inside and there is a picture of you can see back just underneath here. I was known as rep for a developer here in Los Angeles, but that was my job entitling dirt for this developer and building high and multifamily in Long Beach, California. So I had a lot of experience with that. Specifically talking about on Instagram, which I think was called the Munroe. We actually had to walk away from that deal. We were going to come, it was a nosy deal and we are going to step in opportunities on for those people who do not know where does he means. Step in as a developer up which is sort of come in before the end of that value was added, so we could get the oozy gains and Covid hit, right? We wanted to buy it 217K doors, a brand new rap product deal. We thought we had it all boxed in and in Covid hit and lease-up risk went from a 24-month issue to a 20-- sorry, 12-month issue to a 24-month issue which changes the returns completely. Looking back on it, we should just probably done the deal because it 217K door, I know where construction costs are going today and you will not be able to build it for 217K door anymore. It is three kilometers, also three miles from downtown Austin.

Excuse me. In a nosy and opportunities on like, again, Andrew and I, my business but we lost 250 G's on that deal. Okay.

Dan: Wow.

Reed: A lesson learned and we did the right thing by investors and say, “Look, we cannot promise you the same returns. We thought we were going to promise you things have changed, insurance has gone up, taxes are going up, leasing has changed, and through our due diligence we have decided to walk away.” Hard pill to swallow, but again, we have come out the other side, we have done the right thing by investors and it was our dollars at risk. Back to your original question about entitling, yes, the entitlement game is really, really challenging because you hurt your whim of the city, right? When you are doing large scale projects, they can take 12 months, 24 months, 36 months depending if you are doing a zoning change and that can cost you, holding costs particularly trying to get debt on the dirt and you have got a sponsor or support all the soft costs. It is actually soft costs can be quite expensive to getting architects through planning, and then through public comment, and then through the entitlement stage, and then through you have all these consultants to fee. So when you are not earning cash flow from that, you better have a lot of banker, you a lot of money in your bank to keep it afloat. Now some cities are better at approving a quicker than approving, but it just depends on where you want to build. So the for-rent product in Austin Texas can take two years to get approved in the City of Austin takes a long time. It is like Los Angeles, it is like New York, it takes a long time. You have to understand that, but a lot of people make a ton of money just entitling dirt and they can do it smart by only going hard with their money until they have got the planning commission on board that sort of the fifty percent of the total nut along the way. So once you do not have any money upfront, you have got and use get through the planning commission and then you go hard with your money on the dirt, and then you have taken a lot of risk off the table. I know a lot of people who do that and then they just turn around and sell the dirt back to another developer because they have taken the risk is out of the deal for non that point that is going to go to get to a shovel ready permit and they are off to the races. It depends, it is also for courses. It is how much risk you want to, how close to the sun you do want to fly, and really, if you can understand navigating your local municipality because that is the key. That was my job for my developer and Long Beach was navigating the city effectively through all the red type to get a 200 or 300 unit podium-style project out of the ground and it takes some time. So yes.

Dan: What kind of money do you think if you had to guess, I mean, obviously I am not going to say, “Hey, Reed, your hired but the soft costs on a 2 or 300 unit development and type one piece with the architect, zoning attorney, the whole thing to get it to the point of [crosstalk/inaudible] already permitted.

Reed: Even if it was comparing it to site, I am talking to one market. I am talking Austin. Austin is not to one market, I was doing a downtown Austin project, it would be similar to LA. I think you are looking at least a million and a half, like in terms of-- that is all your fees as well do applaud. The application fees to apply for zoning, the city is not looking at it for free. They are going to say, yes. Well, look at it, cope up two hundred thousand dollars and then you got two hundred thousand dollars an architect. You got four hundred thousand dollars a civil engineer, all these, and this is to get all the way through from schematic design all the way through to design development, which is a level of project and construction documentation that is a level of details in your drawings that you need to show local municipalities to say, yes, we think you are not yahoo and going to build some wacky job. You say what you are going to do and here is your drawing to prove it, that is essentially what you are pleading your case and that can take 12 months, it can take 3 years. Again, depends when you get caught up in the process. So over that period of 3 years, 2 or 3 years or it could take yes between a million, a million half bucks for a 300 unit project for sure.

Dan: Yes. It is wild. I mean I did a the same small little building, it was neat, you know when I bought. It was 10 units too or illegal. I had to go through the Chicago zoning process. Luckily I had an attorney who is really solid, well-known, there was this kind of handshake thing with the aldermen that they all the lawyers. So they are all plugged in. It was a very political process that went my way and then after that, it was a zoning board of appeals for the park. One thing after I did not realize how much work I was going to have to go through, I would not built the extra two units. It is just like, I have not even broken ground on the two units yet.

Dan: Yes.

Reed: It was interesting that the attorney who represented me representing another developer who is doing the Treasure Island grocery store. I do not know his name here in Chicago, but it was a sixty-five million dollar development, ninety-hundred units, something like that.

Dan: Wow.

Reed: His sound a lot more exciting and said, “Well, how much would that be?” He is like, yes, I mean you might spend a hundred fifty-two hundred thousand just in the attorney. We did not have the architect there, but it has been and still is. I think my permit is issued yesterday. I paid for [inaudible].

Dan: Congratulations.

Reed: Yes, thank you. We will see about building those extra couple of units, but it is a process that I think has value in certain type of deals at some point. It is not like I am going to go off and be the entitlement guy. We are very successful single-family what.

Dan: You have let the price, the roofs that you are describing just there and I for anyone listening out there, who wants to do entitlements, do exactly what you do. Start small. Find a single-family like that you can put a duplex on and just go through the process of putting an extra unit on there. Just start really, really small and you want to start with what is called buy right. So it is zoned, your single-family lot might be a-- you buy right by the law you can add an extra dwelling on it and you do not have to go through the hoops of zoning change. When you are changing a zone that is when it just like, oh gosh, that can take you through is depending on the municipality. Yes, it is exciting stuff.

Reed: Yes, it really was. Are there any books that listeners or I could check out that have to do with entitlement development or anything like that?

Dan: I have not come across a lot. It is purely through just education because again each cities different, right? Each city has a political sway and how they want their urban corridor look and are they investing in their urban corridor. They want to track developers, they did not want to attract developers. So it really, really does come down to get the people that you just mentioned before those politically connected, not politicians, lawyers, and a lot of local architects talk to them. The thing that I actually found really interesting here in the United States, I can walk into Los Angeles City Council and if I have got a piece of land, I can go up to the counter before Covid and ask them questions. Okay. I have been thinking about doing 3 unit on here, what it would, can you give me just your too sense on, can I even do this legally, and they will more than happily, give me some to their advice. In Australia that would not happen at all. There are some lie. I know they do that in New York as well. I have done some stuff in Philly that I am pretty sure you can sort of have a chat with one of the local planning planners that can say, “Yes, I think you can do that because it is in line with what we want to build and it is aligned with the zoning and there is no conditions on that piece of land to say that you cannot build a certain height over 85 feet or whatever it is. All these things go into it and it is what is called a specific plan for a certain municipality and most municipalities will have what is called a specific plan of how they want their city to grow but that is very dictated influence by the politics behind it." There is no just book to say, "This is how you entitled dirt because it is different in Chicago, it is different in LA, it is different in New York because the zonings or difference got different classes and how you jump from one zone to another is also really, really difficult and here in California, we have the coastal commission." So you if are within a hundred feet of the beach, you go to go through another layer of coastal commission for environmental purposes. There is just different layers there that you cannot just say in one handy little book, here you go.

Dan: Got you. Yes, that make sense. So you mentioned they will not do that in Australia and if people are did not figure that out from the previous episode that we did where we talked about your background, but you also have the Investing in the US Podcast, right?

Reed: Right.

Dan: So your perspective coming from halfway around the world and with this kind of global thing you run that show and I am curious right little plug for the show. People can go check it out there. You have a bit of a business format. So it is like investing in some other businesses might be some of the topic not just investing in US real estate, at least those were a couple the topics I saw but I am curious. What were the biggest revelations highlight surprises things that you learn from guests on your own show that you are like, "Wow. This is great. I am glad I was the host of the show to even have this conversation."

Reed: Well, as being a podcast host, I started this thing Investing in the US, 5 years ago. I am come to 250 episodes of 50 one a week. The thing is it is like, when I started the show, it was just about the benefits of investing here in US real estate and after doing so many episodes you can only talk so much about real estate. There are so many topics before just, oh, I heard the tax advisor, I heard this, we have heard that. So I changed and name just Investing in the US and because there are so many other awesome founders and entrepreneurs who are here, who are creating incredible companies. I think the real big eye-opener for me was is the ecosystem within a business. When I say business, it could be a single-family flip it like yourself. You have built the construction management, you built the property management, you have built it all in-house, and that feeds off one another, and that is really what I think just starts to create wealth for entrepreneurs particularly real estate investors. On my side of the fence as well, with the multi-side, there is obviously buying multi which is great because it is a business in itself, but you could have the property management if you have a thousand units or two thousand units. Yes, maybe go start a property management company, you can make a bit of money out of it, go start of construction management company. Maybe there is, I was looking at a lot of people are starting to build these internet packages on-site, and their property owners, they own 10,000 units because they can do it on their guinea pig has their own portfolio. So the things that I have learnt is that talking to other smart people who are way smarter than I am is just the different ways that you can build Humpty Dumpty back together again. It is so many people have different takes on it and that is what I think is being the cool thing about jumping on podcast and you can hear the energy that I bring, that I try to bring at least that I really get my juices flow when I am talking to other people on that same wavelength because sometimes entrepreneurship can be a little lonely. Then that is what is been to be the greatest thing that is come out of my show is opening doors just people like yourself mate, talking to other incredible people who are out doing awesome things and I get to hear their story and I get to share in the experience in the journey along the way. I do not know that answer the question but it is sort of, it is a holistic approach of how I have really enjoyed the podcast and I actually do not make any money of my podcast. Because I just do it because it opens doors and the doors that it opened over the last five years, I cannot put an ROI on that. The investors that I have been to being introduced to, I am sure you are in the same boat. Would you agree?

Dan: Yes, absolutely. I mean for me, even the conversations himself with a variety of guests who may not even remotely look like it is some kind of a match to single-family house flipping. There are takeaways from that. I think it was, if I am not mistaken the fast-food industry, the fast-food industry stole the drive-through from a bank. I believe is how the story went down. So it was like, here is this restaurant owner and he like looks at the bank and they have the drive-through and then he puts it into the drive-through window and bang, all the sudden this is like, this defines fast food. So I am always kind of looking out for the drive-through window type of an idea, so whether it is the psychology the investor of a multifamily syndication operator, or even the passive investor in that syndication. There is something in the conversation way think that might apply for me and it is like, I do not know. I have had I do not know, a hundred eighty-three of these conversations and it is all right there for someone to go through, and literally you can just see how the conversation developed over the years. It is the same, we do not make any money from the podcast and I do not even do it for and we have got investors who participate in our deals single-family, but we do not really have a whole lot of that going on. We are kind of self-funded at this point on almost all the projects that we have. We are in a really good position, but the knowledge I could not put a price on the ideas. The drive-through windows that I put into my business, there is no way that I could put a price on that.

Reed: I love that. It is nearly like a mentor, right? It acts as a mentor to me and then you keep learning and you keep being curious and I think that is the challenging part that I love doing this podcast.

Dan: Absolutely, absolutely. So any trends or forecasts on what is coming down the pipe? It could be product, it could be something about the economy, but if you look in your crystal ball, Reed, what do you see?

Reed: I see. Look, I think interest rates, not interest rates, insurance is definitely go through the roof. I think it is continue you got up, and up, and up. Cap rates are going to probably stay where they are until the fed starts increasing rates. I do think the short term is that the feds are going to keep it relatively low as we come out of this pandemic because they want to stick keep stimulating the economy. So I do not think it is going to be a Band-Aid ripped off that we are going to go up 25 basis points every quarter for the next two years. I think it is going to be more or a slow and steady increase over the next two or three years. For me personally, like it is when money's cheap cap rates are low, I do think we will come back to-- excuse me, cap rates will start to expand again and I think you need to underwrite from the multifamily side and expansion in your cap rates on upon exit. I think then also looking at other costs and insurance costs are really going to play a massive role in how we go about buying deals and I think global warming will have a massive impact on assets multifamily investors and our portfolios, and how we can afford time to ride if we are-- I remember going to Texas 6, 7 years ago and underwriting deals at two hundred fifty dollars a door for insurances, now five hundred bucks a door. I know that is cheap compared to some of the coastal markets, but that has only happened the last 5 or 6 years. What is going to happen another 5 or 6 years? It is going to go up even more. So taxes are going, property taxes are going up in Texas. All these things means that my P&L keeps getting squeezed and I need to be smarter. How do I go out and adapt? Okay, what does the city need? Well, city needs affordable housing. Well, maybe I can go get some tax credits by doing some affordable housing stuff. Let us start having a conversation around that just thinking a little bit differently, but overall, I do think it is not getting any cheaper doing rude to a multifamily in this day and age. So I think the secrets out and every man their dog seemed to be in multifamily right now.

Dan: Yes, I wonder how long it is felt like that.

Reed: Yes.

Dan: My parents thought the taxes were much higher from 10 years ago before that, it was just like an unbearable trend. Any final words of wisdom as we get to the wrap-up here on the show?

Reed: No. The other thing we probably should be watch out for inflation. I think there is going to be a little bit of that coming around the corner with all this lending quantitative easing. So there will be some inflationary effects that that will impact us as real estate investors. That that only means that having your money and hard assets is only the better for that. We are in the right space to be in.

Dan: Yes, absolutely. I mean, I guess that is the saving grace, the rising interest, insurance may be the rising interest coming down the lower cap rates, but perhaps the inflation in the rent is what ends up kind of keeping this thing moving as it always has.

Reed: Exactly.

Dan: Do you want to point listeners who want to get some more Reed Goossens to a website, contact them for anything like that?

Reed: Yes. Yes. Yes, just simply go to reedgoossens.com. That is R-E-E-D-G-O-O-S-S-E-E-S.com, I have to spell it out because I have got a lot of double Es, double Os, double Ss, and yes, just hit me up there. There are podcasters up there. If you are coming through a line and you want to meet up for a beer, or coffee, or lunch, and talk shop, you can just drop me a line at info, that is I-N-F-O at reedgoossens.com.

Dan: All right, cool. Hey, thanks again for coming back to the show. I had a blast. I got ton of notes here on the desk. So thank you for coming on the show, Reed.

Reed: My pleasure, be well and stay, stay warm as they said and how saying in Texas.

Dan: Yes, true enough, huh?

So are you interested in doing deals with no money down, creative financing? Sounds like a good idea, right? Then you might consider diving deeper into the mortgage note business. The mortgage note business is the creative financing strategy in real estate. First, negotiate, no money down deals with sellers, then find a buyer willing and able to put some money down, and continue making payments until the deal is paid off with the profit for you and in between. One of the things with creative financing is that you can sell properties from much higher prices using creative financing. So here is an example. I bought a package deal a few years ago and as part of the package, I think there were five houses that I really wanted because they were in the right area and there was a six house for twenty thousand dollars not in the right area, that house that I had to buy for twenty thousand dollars as part of the package. It was worth about twenty thousand dollars. I tried selling house on the market for twenty thousand dollars plus or minus leaving the room for the commission, but to no avail, the house did not sell. So I removed the listing and I wrote a Craigslist ad offering that same house for forty-five thousand dollars. This time I added creative financing. So the deal sold for price of forty-five thousand dollars with eighty-five hundred dollars down and four hundred and forty-three dollars per month for 10 years. So the deal was off my plate collecting payments.

Now, if the deal runs all the way through the 10 years, I will end up with a total of sixty-one thousand six hundred and sixty dollars on a deal, I could not sell that I had to buy for twenty thousand dollars which amounts to a profit of forty-one thousand six hundred and sixty dollars. Not a bad deal on a deal that I could not even sell to break even, right? So it is the best way to learn about creative financing, no money down deals, and the mortgage note business. Well, you are in luck. My friend Brian Lauchner is hosting a full-day virtual workshop in a few weeks on exactly that topic. Normally this cost ninety-seven dollars to attend but as an REI Diamond Show listener, you can attend free when you register at reinoteschool.com. This class is a full day of content, tons of examples of real deals and of course, many of these deals are the crowd favorites. No money down and extracting a nice chunk of cash upfront followed by years of additional payments. So go check the schedule and sign up at reinoteschool.com.

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We are at the conclusion, my friend. Next up, we have multifamily syndicator, Chris Larson joining us to discuss his quest to build a one hundred million dollar multifamily portfolio. Catch you next time.

Male Voice Prompt: 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.reidiamonds.com.

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