Presenter: 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 187 on investing in multifamily properties 150 to 300 unit deals with Chris Larson. If you are into Building Wealth through 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 used to create millions of dollars more in the business of real estate.

Chris Larson is the founder and managing partner of Next-Level Income. He is been syndicating multifamily property deals since 2016 and raised more than $15 million over $150 million in acquisitions. Chris's Company is focused on identifying high yield passive investments ranging from real estate to oil and gas leases. All in this episode, we dive into his asset selection process, favorite multifamily markets, and some risk mitigation strategies that served Chris well during the recent pandemic, as well as some other topics. Let's get right to it.

All right, Chris Larson. Welcome to the REI Diamond show. How are you doing today?

Chris Larson: Dan, I am great. I am excited to be here with you. Thank you.

Dan: Nice. It is always looking forward to this high-volume multi-millions of dollars raised and you know conversations I get to have with guests like you, but you know for anyone who does not know your name already maybe does not know about your podcast. You kind of want to talk about maybe the evolution of your career, starting with let's say you are first deal and then ending with your current business model Chris.

Chris: That sounds great. So I love real estate, I set off to be an investor when I was really a teenager. It is kind of a long story short. I race bicycles. I started racing when I was 14, and I will never forget that feeling of freedom I had when I first left my neighborhood on my bicycle. And it really instilled in me this ability to kind of go where I wanted to and do what I wanted, and when I was younger that meant racing my bike. And I got my driver's license, I was excited to get my driver's license so I could drive to races outside of the state. And so I was traveling, when I was 16 years old, up and down the East Coast across the country, and plans raced even at a national level. Until I was in college, and at that point, I want to be a professional cyclist.

I went to Virginia Tech I was doing an engineering degree and no I did not want to be an engineer, but I also did not want to be poor. And if anyone knows anything about cycling, they know those bike racers are pretty poor unless you are racing in Europe, which is a very very small portion. You just do not make a lot of money, like a lot of professional sports. So I was entrepreneurial. I would do different things in college, but I quit cycling after my best friend, my training partner my roommate, passed away. He had a massive brain hemorrhage. And spend another year kind of poured my heart and soul into the sport, but I realized I was not happy. I still wanted that sense of freedom and I thought well, I am not going to race my bike anymore. I am not going to be an engineer, What am I going to do?

I started day trading in the stock market in the late 90s, which there are a lot of similarities today Dan, in my opinion between the market than in the market now. This is very exciting also very stressful. So here you take a junior, 20 years old in college making $5,000 a month day trading but could not sleep at night. And one morning at 3 a.m, I just remember thinking, what the hell am I doing? And I start, I kept reading books. I have always been an avid reader and I started learning about real estate.

I bought my first property at 21 and what I learned was to leverage the control and tax benefits were something that really fit my personality my interest so I built a portfolio and it was all single-family rentals at the time. So probably like a lot of people listening and I thought that was the way to go. And after about 15 years of doing that, what tenants and toilets and different headaches, while also being a professional. I was a medical device sales rep doing well in that space.

And I was on call, then I was getting phone calls from my tenants. I thought man I do not want to do this anymore. I ended up transferring All my equity from those deals into commercial deals really multifamily was the main focus. And what we do today at Next-Level Income Dan is we help provide education to people that are looking to take their income their Investments to the next level whether it is in real estate or otherwise and also we Syndicate opportunities. So what that means if you are not familiar with that term is we allow investors to come in alongside of us, and they can invest in larger commercial deals and this is mostly for people that want to be passive investors. So if you like to swing a hammer and get some higher returns by being an active investor, that is not our specialty. We specialize in helping professionals, like doctors, business owners, other professionals that want to get involved in real estate, but maybe they do not have the time or the knowledge themselves.

Dan: Nice a lot of good stuff there. I am sorry to hear about your roommate's passing. Does it sound like that was maybe a little bit of a catalyst for you or the wake-up call?

Chris: Yeah, I mean it is as I have learned about things over time Dan, think when we are young almost everyone feels like we are Invincible right. And I was reading a few years back about children that lose a parent and how their data is correlated with success, and sticking like that is a weird thing to be correlated with success. You think if you lose a parent that would be a hamper to your success that would be a hindrance, But what I realized is that when you lose somebody like that at a young age you realize that time is finite.

And immediately, I knew that my days were numbered, my time was finite, and I knew that racing a bike was not the best use of my time. So it certainly was a wake-up call. I realized man, I do not have a girlfriend. I do not go to parties. I do not have that much fun. Yeah, I am doing really well as a cyclist, but I will never forget winning a race and feeling hollow. But why the heck am I doing this if I am not getting any enjoyment out of it, so we certainly a wake-up call and it made me realize that I had to make the most out of every day and that did not mean going and blowing my money and having all the experiences. It meant making the most in terms of what I could do as a professional what I could do in the investment space, but also enjoying every day as if it was my last.

Dan: Yeah, it is good stuff and I feel like there is this. I do not know. I mean you got the Catalyst for the wake-up call. It is like sense of purpose and I know that when I used to hear that kind of stuff before leadership books from whoever CEO they wrote it for their speaking career. Whatever right? I used to give it a that is nonsense just give me the money, I want to make the deals. But I remember my daughter, I moved to Chicago from Philadelphia in 2014-2015 right around when the year changed and the reason that my daughter was living in Chicago before that and I was living in Philadelphia, where I grew up, is that her mother and I kind of went and separate ways as I skidded on the Rocks from a drug and alcohol problem way Back ten years before that. But I got clean in 2012 for good on January 21st, God willing.

Chris: Congratulations

Dan: Thank you. And it was not exactly this big Catalyst and life-changing none of that Right? There is no Fanfare. There was not a DUI. There was no skidding against the Rocks when I got clean. It sort of fell off in the time was then but where I am going with this is a year, two years, three years later, I started to build up some kind of level of momentum success in my real estate business again in the Philadelphia Market. And my back of my mind, It was like time is finite and I wanted to move to Chicago so I could be near my daughter was kind of this dream I always had, and there was never really a right time to do it was weird. There was not like a shocking moment kind of like you described was, Oh my gosh now it is kind of the time and it happened that I set the date and I did it.

And I think for a lot of people, we are doing these certain things whether it is like thinking about getting into real estate, thinking about making an investment in some real estate, buying that first piece of property, maybe a career change. I do not know sometimes you just have to set the date and find this way to spontaneously make it happen, and on the other side of that Chris, as we were talking before the recorder, moving to Chicago for my daughter ended up placing me in another market I learned how to do real estate in Chicago's market and then on Atlanta's market and things have really gone in a whole new great direction for me personally as a result of that. So I do not know what the takeaway is maybe there is trying to get yourself this sense of purpose to act now or literally looking at some kind of big life events that occur, and then using that as a catalyst something to kind of Leverage yourself forward.

Chris: Yeah, I would say everything begins in them in your mind like mindset is key and if you are sitting there and you are trying to determine, as we record this we are coming up on March and I spent 18 years as I was mentioned in the medical device profession. And actually, March 31st is my final day. I will be transitioning out. It is been something that I have really had an identity with my career. And it was something that allowed me to make money that was the capital for me to invest. And I have really struggled over the past few years because I have not had to work in this career for probably four years, with everything we have going on in the real estate world that I enjoyed it and I struggled to let go of it.

And really more so in the past two years and I was coming back from Utah with my son and we were coming back from this impromptu ski trip to go visit a good friend that moved out there. And he looked at me, and he said, "Dad, I love you man I had such a good time I want to do more of this." He is 10 years old Dan, and I thought I can do more of this but I have been able to do more of that is to be chosen not to. And look two days later, I said I am gonna tell my VP that it is time to time to move out of here. So I made that decision, and if you are sitting here listening thinking, oh I could do this or I want to do this I just have not done it. The day I made that decision, The doors that opened were incredible. It is just been amazing.

So it all starts in the mind, but like his name pronounce Cuello says in The Alchemist, once you decide on something and you commit to it the universe will conspire to help you, and I truly believe that but it all has to be getting your mind.

Dan: Yeah, you are right about that a lot of good stuff there. So let's shift gears a bit. I was doing some research before our time here today, and I noticed that you had some history in oil and gas leases. Is that correct? Maybe you could talk about that as kind of a unique topic for us real estate folks.

Chris: Yeah. So as I have learned over the past two decades as an investor. I see that there are similarities and other asset classes with real estate. So let me give you two examples, I end on oil and gas but life insurance is a big one. My father also passed away another life of [inaudible]. I was five and he had a couple of small policies accidentally left one open did not cancel it which helped my sister and I go to college with a very modest sum, but my mother passed away in 2011 and my stepfather said sorry she did not have any life insurance because it was too expensive.

And I will tell you no one ever says up I had too much insurance when they use it, never say that. Like you might not want to pay for it, but you always want enough insurance when you have it. I am a big proponent of whole life insurance because whole life is a lot like owning real estate in that you have a level premium and maybe set for 10 years 30 years kind of like a mortgage. But what happens is you get Equity that builds in the end, you can leverage that equity and put it into other assets while it is providing value for you. So just like a house, you can live in and you can pull money out of that house to invest in investment, for instance, oil and gas is another real estate play.

So it depends on how you look at it, but the group that I work with their real estate guys, and what they do is they go in and they find they find oil fields assets that are already producing that they can optimize that they can increase the value and then they turn them typically on a three to a five-year period very similar to a value at real estate play like we do. Now, one of the things I love about real estate is the tax benefits. So, Dan, there are very few things out there that have better tax benefits than real estate, But oil and gas are one of them and with the 2017 tax cuts and jobs Recovery Act the bonus depreciation came from that the tax benefits for high-income earners are really really good for oil and gas. So if you are a high-income earner and you are looking for Investments that are either alternatives to real estate or just to compare it is certainly worth looking into in my opinion.

Dan: Is that something that is part of what you provide as the Next-Level Income education to passive investors? Is this still product that is viable that you discuss with people even today?

Chris: Absolutely. So the group that I initially invested with, I can provide access Name if interested. If they want an introduction to that group. There are obviously other groups that are out there that they can do, but I like the group that I work with because they are real estate guys that understand kind of the strategy that we employ at Next-Level Income. And that is something that people that I coach, we always look at their individual opportunities. So if you are listening, I am not your personal advisor, if it is Something you are interested in looking at your shows, consult with your accountant, your personal advisor sees how it applies specifically to you. But the last thing I will say is I think we are in a very interesting time because if we go back 12-18 months and we look at that oil and gas prices today they are significantly lower. And I think it is one of those times that I know if you caught once in a lifetime, but definitely once in a ten twenty-year period opportunity for oil and gas in my opinion.

Dan: So in a sense, it is a great Buy in moment because of the market the oil and gas market is so low compared to how it normally looks or what it might look like after a three or five-year recovery from covid shut down Market.

Chris: Yeah, so there is a couple of things playing into that. So one, you know with covid with demand pulling back prices have pulled back as well. But if you go back and you look now whether you are Republican, Democrat, independent, Whatever if you go back and you look at the administrations that have been Pro energy typically you see lower prices. If you see administrations like the previous Obama administration now Biden he is shutting down some of the opportunities to explore for oil and gas, and it does not take a genius to figure out that if you increase demand coming out of this covid crisis and you decrease Supply at the same time, what is going to happen the prices most likely, in my opinion, they are going to go up.

Dan: Yeah, I think you are right about that. And I think there is probably also some negative sentiment with the height that Tesla stock has gone to in the past six to nine months. The investor sentiment against oil and favor of the electric car and energy is it is what it is, but I think we are still what I mean. We got to be like a decade 15 years, maybe even 20 years out from a point in time when the demand for oil is not going to have the Kind of effect that it is going to have two years from now.

Chris: Yeah, listen, if you look at what just happened in Texas with the bad weather that happened with the wind turbines that shut down. I love Renewables. I have had a Prius actually my wife and I own a plug-in hybrid right now. We have solar panels on our roofs. I got my church to start recycling when they were 11 years old. I am an environmentalist. I love the environment. But the fact the matter is we can not run the economy today without oil and gas, and it is going to be a while before we do that. So I am all in favor of Renewables and alternative energy sources out there. But this is not something that is going to go away next year now 10 years from now we might be having a different discussion Dan, but I think the window of opportunity is open right now.

Dan: Yeah, I do not know because I was not paying attention to the stock market and the economy in general 10 years ago. But I wonder as Elon Musk was forming whatever his Solar Company is 10 years ago, and I remember 2006, 2007, 2008 right around that time. I remember the articles in Forbes about green energy and we are doing Green Building and everything and it was kind of the same Fanfare 10 years ago, and I feel like a comment like that could happen to music as, yeah I do not know maybe we will have this conversation in 10 years, but I do not know maybe there is still quite a long Runway to go for oil.

Chris: Yeah, I think there might be a new look at China. They are building Clean Coal facilities over there that scrub 90% of the stuff coming out of the plants. They are also building Next Generation nuclear facilities over there. And if you are listening you disagree with me, that is fine. But you know the facts are the facts like there are energy sources out there. We need more than just Renewables today. And again when it comes to making money, I am fairly agnostic. I will look at things and if it does not make sense for my social sphere when it comes to my social filter when it comes to that I may pass on it. But you know, it is if you are an investor and you are looking at opportunities out there, I certainly think that should be something in your scope that you are looking at.

Dan: So you also touched on life insurance and I have had the conversation I think with people on the show and certainly with brokers and agents for the whole life insurance policy about the banking on yourself product. Right? But I am curious and for me, it felt probably more along the lines of me being young and invincible, and then I am not going to die anytime soon. So I bought the 20-year Term Policy instead of the whole life just to be you know safe for at least a near-term, but the whole life insurance policy is a good investment, right?

When I was researching for this episode, Chris. I had the Revelation it was like if I were 10, 15, 20 years more in age whatever the case is. I do not know if maybe it is better to think about the whole life insurance policy as sort of a bucket of cash that I am trying to put away now for my family and for my heirs later as probably the highest concern for why I would make that investment in life insurance because you get this tax-free ability to move that cash to The Heirs. Is that correct?

Chris: Yes. look, you have done some research, Dan. And the one thing I would push back on is when people say hey life insurance as an investment. So do not think of it as an investment. So let's kind of stop there for a second, and say okay life insurance is something of value right? If you want to have life insurance in place. If you have children, if you have assets if you want to set up a legacy, there is value in it for that. Whole life insurance can be a tool that can be utilized for multiple things.

So we actually started our policies, my wife and I, when she was pregnant with our first son, he will be eleven here. And we said hey, let's set this up instead of a 529 plan because there are some disadvantages to having a 529 plan. So if you have a 529 plan it may affect your children's ability to get scholarships and Aid you can only use it for education. So I thought well, hey what if we start this life insurance policy we have access to the cash while we are saving it, if something happens to me or my wife because we both have policies then they can provide that benefit for children, right? So we wanted that, and then as I started to learn more about this, Dan because we started these in 2010. Actually, I am sorry 2009 we started them, my son was born in 2010.

Where I realized was Wow, this is a really good way to put cash in between deals that I am going to invest in real estate. So I asked my listeners all the time. What are you doing with your cash between deals? We are earning 4-5% within our insurance policies now that they are set up with that cash that we are putting in there and it is a great opportunity to put money in there, and then pull it out when we need it.

So it is a tool to utilize and then if you are an entrepreneur, you do not have a 401k you do not have somebody that is matching your plan. If you are a real estate investor a lot of people say hey, I am going to start a self-directed IRA. Well, you could put money into a life insurance plan a high cash value life insurance plan and you could set It up as a retirement plan for yourself kind of like a Roth IRA because you can take that money out tax-free when you need it at the end of your working years. If you want to do that or part of your financial Independence plan, but you can move it in and out in the meantime and get access to that cash.

So again, I would say think of it as a tool, and if some of the things I have said or appealing to you. If you are like, oh I could use it like that, then go ahead and explore it. As an opportunity, we have a whole section on our website under the banking link. People can get a white paper that can watch a couple of videos and see how we do it and we actually work with specialists that focus on working with investors. So they know how to structure these policies for investors.

Dan: Let's say I had a million dollars in cash, and I were 65 to 70 whatever I was I was up in my years or maybe not and the only thing I was trying to do with that million was passed on to my heirs without any kind of taxes having to be due on that. Is that like possible to kind of sink a large chunk of cash into the whole life? And then if you did pass now, I do not know maybe someone could not get the underwriting if they were terminally ill, but if they already had to plan and we are terminally ill sitting with that million dollars in cash trying to give it to the heirs without any kind of a tax consequence or I have never had to do a States and that kind of thing. So it is sort of like I am out on a limb with the idea that makes sense Chris?

Chris: It does. Yeah, so there is look there are other vehicles out there. So you got a million dollars cash sitting around trying to figure out the best way to pass on. I would talk to a good estate planning attorney first and foremost, but I think the one thing with insurance is the younger you buy it the cheaper the insurance portion is, so as you get older you have to consider the fact that the insurance cost is going to cost more and because in life insurance has such great tax benefits actually in the 80s. There were some laws passed by Congress to decrease those tax benefits. So it was not just a tax shelter, but you can certainly dump a bunch of cash in there. And if you want to pass a million dollars on to your heirs, you probably do not have to take that million dollars in cash. You could buy a million dollars of [inadible]. And you could do other stuff with it when it comes to your Investments with that, but again, I think it is certainly something that should be investigated.

Dan: Makes sense. So my favorite topic and it sounds like what you kind of did as well you talked about the single families that you had single-family houses years ago, and then you talked about getting all that equity and putting that into commercial. I assume that is probably multifamily. That is kind of what I am going to process of doing personally. I like multifamily. It makes sense to me. It makes sense to all our listeners on the show who are doing residential Single-family fix and flips real estate agents. Everyone kind of understands because you live in a house or an apartment at some point. So we sort of understand that as an asset class as a first stepping stone most of us to get into the larger commercial deals. Do you want to talk about that transition a little bit Chris and sort of what that commercial segment or portion of your investment activity is looking like over the last 6 to 12 months?

Chris: Yeah, so I started out in the Single-family space. And again, if you are somebody like me that has like three thousand dollars in the bank and you wanted to go out and buy a property. It was basically the only option that was out there. So I am a big proponent of doing like a Fix and Flip or going in and buying a house that you can fix-up living for a couple of years and still tax-free. If you are looking to do your first deal where Airbnb's but what I realized after 15 years, Dan, of having these properties that the equity grew my return on the equity I had these deals were like 7% and then I had to pay tax on those. I will tell you what getting 4 or 5% after-tax is not great, It is not a great investment in my opinion.

So I looked at multifamily and at the time I could get a better cash yield, and I could get the appreciation on top of it and I did not have to manage the properties. So that is why it became so interesting to me. When I looked at the demographics, I am a demographics guy. I got to the medical device industry because of demographics. I moved to the Southeast because of the demographics, we still invest and buy in the Southeast because of the demographics and we buy multifamily because of the demographic Trends. I think it is going to be stable for the next 5 or 10 years.

I think it is a very good place to invest still to this day when it comes to what our group does we are going out and we are looking for high-quality institutional quality assets in the B-plus A-minus space. So what that means is we are looking for properties built in the last 20 years, and these are in neighborhoods and cities that are growing faster than the national average places like Raleigh, like Charlotte, like Atlanta. Just like you, Dan. Jacksonville Florida areas that are growing that people are moving to from other areas of the country, and we are going in we are improving those properties improving operations driving the net operating income higher driving the value of the properties higher, and ultimately allowing good returns for both our investors as well as us as we invest in all of our deals.

Dan: Are you thinking long-term the exit strategy on these is like a 3 to 5 year refinance and cash out your investors and keep it for a long undetermined period of time? or are you looking to exit those deals at that 3, 4, 5, 7-year sweet spot and kind of capture the windfall of that forced appreciation?

Chris: Yes. It is more the latter, so we try to Align ourselves perfectly with investors, [inaudible] investors I should say. So we are looking at a 3 to 7-year-old period typically get in there execute our strategy, and if we are able to turn that property within that window we are going to look for a property that we can then leverage our Equity into the next property at that point.

Dan: Got you, did you sell out of the single families? is that something you kind of literally let go of completely? Are you still own some of them? okay, alright.

Chris: Sold all of them. So we have our own personal Single-family residence right now. We have actually an Airbnb and another actually 2 short-term rentals, But we do not have any Single-family properties that we currently manage ourselves.

Dan: Not a bad place to be, so how many deals are you in the middle of? or what kind of a deal size multifamily are these typically that you are looking at? Are these you know sub 100 units hundred to 300 units? What would be the size of Sweet Spot?

Chris: Yeah. The properties were targeting typically 150 to 300 hundred units. And those are going to fall in the markets that we are looking at $20 to $50 million range. We bought 3 separate properties last year, and those were over a 125 million roundabout total.

Dan: That was in 2020 through the pandemic you closed on 3?

Chris: That was in 2020. So it was a bit of a rough year. So we put a property under contract early in the year and Q1. I tell people I feel like I did raise the capital raised for that property 2 times because it was a lot of people got nervous and pulled out, but we closed on that deal on time in May, and then nothing happened. As you are probably were of Dan for six months and then we close 2 properties in Q4 that they are doing quite well. Actually, the property we closed on in May is maybe the best-performing property in our portfolio. So I think it is a testament to the stability of multifamily and our resident base is typically a little bit on the higher income side. So 60,000 plus a year and our collections have been around 98% So they have been nice stable assets.

Again, if you hear me talking investor, I say we kind of the Warren Buffett strategy a real estate and like Warren Buffett, it is not really sexy.

Dan: Got you, So what are the cap rates on a b-minus or I am sorry a B-plus A-minus 150 unit? I mean it is traded like when you bought it like a six and a half cap seven cap, and like what is the upside of them on the lease? I guess we all know the upside, but what would be the cap rates expected that you would actually get excited and close in a deal in May of 2020?

Chris: Yes. so it depends if you look at some of the stuff we are buying like Workforce housing their cap rates were in the sixes, and we are seeing cap rates even down below five right now. And you have to look at your strategy. So depending on what you do cap rates cut both ways for a dollar that you increase in operating income at a 5 cap, that is a 20x return on your money. Right? So you have a 10 cap and you increase a dollar that is a $10 Increase in your money. And so what I mean is if you are buying a property at a 10% rate of return you increase it a dollar that is going to be a $10 increase. So it cuts both ways. You do not have to move the numbers as much on these properties with lower cap rates, but you also have to be cognizant and say, hey do we think cap rates are going to be stable or they going to go lower? Are they going to go higher?

And that is a long discussion actually had Glenn Miller on the podcast early in the year. Actually, I think it is technically the end of last year to talk about that and why he believes that cap rates are going to stay low because the FED is going to hold interest rates low for the foreseeable future.

Dan: Yeah, and that comment comes on the heels of the FED making that announcement to save the stock market yesterday when he radio expected to rise and everybody got panicked, but I digress on that one. So, the lower the cap rate typically Chris. Is that going to be a newer product so when you are saying 20 years we have had a lot of people prefer that 20-year age or younger product? Are you expecting should I expect as an investor may be a higher cap rate if it is older than that? Obviously, it is a higher cap rate because my risk is higher if I am getting into a b or c property a little harder to get Collections and things of that nature. Correct?

Chris: Yes. So there are typically a few different variables that are going to determine your cap rate. So the kind of more core quote-unquote core the market is. So if you have like LA New York even like Denver and Austin these days you are seeing cap rates, also like California in Orange County. I have seen cap rates like in the ones out there. So you are talking about really really low cap rates In those markets. Yeah, when you move into like secondary and that also. I am sorry. Let me stop for a second that would also apply to like new construction in these markets. It is typically going to be a lower cap rate because there is less maintenance you can have a higher quality resident.

There is more stability when you move into secondary markets, so that would be what I would call like a rally for instance slightly smaller markets. You are going to see cap rates move up when you move into the older product, 10 20 years old, you are typically going to see cap rates move up again into those markets. So typically cap rates are going to be inversely correlated with the risk associated with that. So depending on how you turn those dials you can see cap rates go like I said down in the ones versus some multifamily.

I was talking to an operator earlier this week and they say in the markets that they are seeing in the eights, which is there are some other different variables that apply to that but what we are seeing is typically 5 plus or minus in that B-plus A-asset secondary markets today.

Dan: how much monthly cash flow is there going to be? I was doing the math on something. I was looking at small building 20 30 units something like that one was that like it is six and a half cap. The other ones like an eight and I was just penciling deals on a napkin. It was not even like a real deal that I was looking at that was advertised or maybe some of it was. I was shocked at how small the cash flow was the cash on cash returns probably like the single-family example that you talked about where it is seven percent cash on cash and then you pay taxes and you are down to 4%.

And it is like jeez, what is the point and maybe the reason that the strategy with multifamily is to ride the ship, you know managed the property right and sell it 3 to 5 or 7 years out because that kind of makes it all worthwhile. What kind of monthly cash flow comes in you get 100 units at $2,000 a month that is $300,000, and then all the expenses go out and there is like 10 20 thousand left at the end of the day for distributions, or is it small is it you know, I am always curious what those numbers actually look like on a deal.

Chris: Yeah. I am always careful to talk about returns, Dan, when it comes back It is always different on a deal-by-deal basis. But what I will say is the cap rates do not always correlate one-to-one with the cash flow because you have to consider the type of debt that you are putting on it. So in today's market if you have a five cap property, but you are able to finance it sub 3% which we have done then that is going to possibly affect the cash flow. Also, it depends on your leverage. So, you know if your Leverage is 70% that is going to be different and it is gonna have a different structure if your Leverage is 70% or 80%.

So it depends but what I can tell you is that for our investors. Typically the cash flow, especially on an after-tax basis is compelling. It is certainly way higher than you get, you know stable government bonds typically many many multiples above that and there is an appreciation that comes on the backside of that if the strategy is effectively executed and then when you wrap it with the tax benefits and I go through this all in my book and if you are listening and you want to learn more about our strategy I actually[?] give you a free copy of our book just go to the website and click on the book link and you can see how to get it there.

But you know all these things are going to depend on and considering it a passive investment. I think you can expect returns definitely above 10% If you go all in. I have seen returns that well above that in our portfolio over the last several years, but it all depends on a deal-by-deal basis and the market to market.

Dan: Yeah, and I did not mean to be prying I guess I am curious

Chris: Not at all

Dan: Yeah, I do not raise the money. I do not feel like we borrow money for 6 to 9 months when flipping a house and sometimes we screw up big and we are in a property for a year, year and a half sometimes but you are going to have that with hundreds of deals each year where once in a while we do a bad deal. And so I guess my contacts personally my Paradigm is colored by some of the failures and not so great deals I have done in Single-family, and I am thinking to myself if multifamily in these larger syndications operates anywhere like this and I am stuck in this 150 unit building that somehow turns way negative upside down. I do not know that I had been able to sleep at night for the 3 to 5 or to 7 year period of hold and it is probably a mindset problem for me, and not that I should stop what I am doing because it is working and shift to multifamily, but it is definitely been fears that I have had along the way were there any fears of this nature or hurdles that you mentally had to overcome as you made the shift from Single-family into let's say the first scaled-up multifamily, Chris?

Chris: Certainly, and look it is like anything if you drive in a single-car down the train track in the train derails, it is going to be a lot less of an issue if there are 200 cars on the track, right? So you think about the size these deals and if it goes sideways, but what I will say is there is a lot more control involved in the multifamily space from a Single-family space. You can control the income and it can be more stable. You also are Diversified right? So if you have one house and your tenant moves out that is a 100% vacancy, you have a 200 unit apartment building one tenant moves out that is less than a percent is a half a percent. So some of the things that we do, Dan, to mitigate the risks involved is one we buy cash flow positive properties.

Our Breakeven were typically seeing breakevens below 70%. So our properties would have to go below 70% occupancy and most of our properties are in the mid-90s, and I can see that number made if we are turning a lot of units for rehabs for instance. But if you have a property that stabilized in the 93%-95% range, it is got a long way to drop to get the low 70%. So typically for our investors, there is a large margin of error or large margin of safety when it comes to those things and then you look at the debt. We are not putting typically short-term debt on these properties. So we are using agency debt and what that means is Fannie Mae Freddie Mac tenure debt, and it is low it is stable debt.

And if we are trying to execute on a 3 to 5-year timeline that gives us some back-end room where we know we are going to have a 3-4% interface so that period of time so we know what we are going to be able to do. And we also keep ample reserves. So we want to make sure that we can operate a property with no income for say six months. So we have six months of cash reserves in the bank and we have you know stable debt in place, and we know that our break-even has to drop really low before we start burning through cash. We can always stop doing renovations and still make money or at least break even and have some cushion with respect to that, and I can tell you is last year with a good stress test with this and all our properties continue to make money throughout the pandemic. So we feel like we were tested pretty well last year, and our strategy our properties continue to perform and maybe there is a little luck involved with that. But we continue to refine and make sure that we have these measures in place to mitigate those risks.

Dan: Yeah, and I would guess that those lower cap rate higher ranking in the A-minus tear property with higher incomes. That was exactly the kind of risk that those higher cap rates reflect when something like covid occurs. So the lower down the scale you go on that average yearly income. Let's say of the tenant population and in building the higher the chance that you kind of have someone who is digging their heels and say what evict me good luck. I am just going to sit here on the couch and call for covid relief. I know that on my property. I do have some kind of see high rate of return properties that I like for that reason that they cash flow heavy, but I was lucky like you and that I really did not have many or if any tenants at all do that.

Although in some of the properties were buying we are dealing with tenants who have dug their heels in and are claiming covid and we have got squatters in properties we are trying to flip. So we did get things up on some of the properties but we were lucky kind of like you on most of them. I was surprised to see that looking back a year ago when nine months when covid shut everything down. I did not think it was going to turn out this way.

Chris: Yeah, it certainly was an uncertain scary time. And I do not think we are fully out of it. But I think you know when it comes to housing multifamily Workforce housing Single-family housing. We were still not keeping up with the demand again. It is another thing to talk about in my book. We need about 330,000 units a year and we are just not building enough units and even the units were building, Dan. These are newer units because the numbers do not make sense to build affordable housing you just can not build affordable housing. You can subsidize it but you can not build it. You just have to get more units out there and create more supply for people in my opinion.

Dan: Yeah, it is the same thing that I have said on the show and the economists have said coming on the show that we simply do not have enough houses and it is like really why we are in this Jam that were in. As far as inventory goes right now, we have artificially low Supply because people are afraid to list their house on the market due to covid, and we also have artificially low Supply because investors who would go to the courthouse steps, and by foreclosures, and sheriff sales and most cities that is not an option right now with this different stages that are in place. And so there is no inventory to come on from neither of those two channels. And we are in this like kind of superheated real estate market.

I think it will normalize in the next 6 to 9 months and probably stabilized. I do not think it will stay as hot with 16% year-over-year increases. I think we saw in Atlanta the median home price. I think it will stabilize and be flat, but I think that this longer systemic problem that was already here before covid hit of not building enough houses. Probably a hangover from 2004 to 2006 the period of over-building but also probably a sign of there is not exactly large tracts of buildable land that are close to the city cores that are even available. So it is kind of this one-off having to do this infill construction which you just mentioned, Chris. It is more of the tear down a house that you bought for $452,000, and so a property for $850,000 to a million like that is not affordable housing. There is nowhere really left even to build it.

Chris: Yeah, It is creating this perfect storm and that space in my opinion and what I was saying if you go back and listen to some things I was saying 6-9 months ago 12 months ago. I think that the challenges that we faced last year while not great for the multifamily market. I am not going to say like 2020 was our best year from a portfolio perspective. It certainly was not but we still made money. We did not make the most money we have ever made, but that demand has to go somewhere and it is going to roll forward. And because there is going to be less supply, the demand is going to be pent-up people are not going to be able to buy homes because they had to burn through savings. Millennials are jaded there. Like maybe I should not buy a house. What if I have to move? What if I lost my job? A lot of these questions are in the back of their mind all those things are good for the multifamily space. I do not love it for those individuals or for the country necessarily, but again from an investment perspective this is going to be good for the housing market and is in terms of your landlord if you have multifamily properties

Dan: That makes sense. So, Chris, as we do our wrap-up section here. Are there any books maybe you do another plug for your book or another book or two that you maybe recommend to people in the real estate space most often?

Chris: Yeah, so obviously Next-Level Income gets a copy of my book. Like I said, you can get it for free on our website. There are so many books on the real estate space it all kind of depends on what you are looking for. I am more of a mindset guy. So I love Napoleon Hills, Think and Grow Rich, Rich Dad Poor Dad. A lot of people talk about with respect to getting them into this mindset of being a business owner and doing that. So I kind of go from this high-level mindset space down to okay what makes sense with respect to which you are doing from a real estate perspective, but I will recommend a book for you.

And that is the Perfect Week Formula by Craig Ballantyne and I do not care if you are in real estate or an entrepreneur, anything you do if you read that book and it helps optimize your time, you are going to get better and be more productive. So I think who does not want to be better more productive in whatever area of your life. And I think the number one thing I hear from the people I coach, Dan, is not hey, I want to buy another, you want to make more money. They actually say hey, I want more of this so I can spend more time with my family, so I can work out have better health better Fitness, and Craig teaches some things in that book that are going to help you do just that. So if you want a copy of it send me an e-mail at Chris@nextlevelincome.com. I will send you a link. You can also get a free copy of Craig's book. So you get a 2 for you, get our book and you get Craig's book if you email me.

Dan: Nice. So the final question I asked everybody some variation of this question the Crown Jewel of wisdom. The REI Diamond shows, so the Crown Jewel. If you had to go back, let's say I do not know if 2020, 21 when you are buying that first property, or maybe a handful of years later as you were getting ramped up with the Single-family, But what would you go back and tell yourself knowing what you know now, Chris, if you could go back 10 12 15 years to maybe help shortcut some of what you had to go through?

Chris: Buy a multi-family deal. Learn how to operate it really well and that is why we founded Next-Level Incomes to help each people some of the lessons that I learned over time and I do not want other people to have to spend that same 10 15 plus years learning that I had to do.

Dan: Nice. Do you want to repeat the email address and also point listeners to a website where they can get more Chris Larson or Next-Level income?

Chris: Yeah, absolutely. nextlevelincome.com you can find all our resources there. Click on the book link and get our free book. You can contact me on that page. You can also check out more information on we talk about Bank on yourself infinite banking just go to the banking page tons of free resources there. And if you are interested in coaching, you can email me also at coach@nextlevelincome.com.

Dan: All right, cool. Hey, I had a blast I got pages of notes Here. I appreciate you for coming on the show, Chris.

Chris: Dan, it is been my pleasure. Thank you so much for what you do for your listeners, and I am pleasure to be a part of it.

Dan: My favorite way to fund a Fix and Flip deal is by using private money. I did an episode on raising private money for a single-family flip a little while back detailing my entire process with Joe Fairless. As a matter of fact, you can find at reidiamonds.com by typing raising private money into the search bar, but what if you do not have access to private lenders and need money to get started everyone usually talks hard money and that is great. As long as you have some reserves or a nice chunk of cash in the bank to show the hard money lender in order to get the loan. They like to loan money to people who already have a little bit of money at least to be able to cover the payments and any other in ciliary construction items that may come up.

But one little-known and little talked about option is Gap funding, and Gap funding is a line of credit used to access the funds needed for Reserve business start-up costs. There is really no restriction on how you use the funds and it is called Gap funding because it is used to fill in the gaps. The team over at REI pathway funding can set you up with gap funding line of credit which has an initial interest rate of 0% and in certain cases if you qualify it does not show up on your credit report as its structured as business loans.

So to find out how much you might be pre-approved for go to www.reifunding.com.

Thank you for tuning into the REI Diamond Show. Remember to review and subscribe on your podcasting app just search REI Diamonds and click subscribe. Interested in receiving my weekly big idea email where I provide the most valuable jewel of wisdom I discovered during the recording of the most recent episode sign up at REIdiamonds.com at that site. You can also access the 187 episode archive. Again, That is reidiamonds.com. So far this year my house flipping company Diamond Equity Investments has bought and sold 56 houses. Well, mostly houses a few were apartment buildings, and we currently have 133 more in our inventory either under construction or under contract and awaiting closing.

Here are three ways we can do business. Number 1, Are you interested in having access to the best real estate deals in your Market in other words access to Deals? You can buy at a low enough price has to actually profit after renovating and reselling if so, go now to accessrealestatedeals.com. Number 2, accredited investors seeking double-digit returns can sign up for my private mortgage investment opportunity emails at fundrehabdeals.com. These are private Mortgage Investment passive investments in my deal. So that is how you can participate in my deal flow. And number three Finally, I am always buying houses that I can flip and occupied apartment buildings with below-market rents. So if you have a deal that fits that description in either Atlanta, Chicago, or the Philadelphia region, please send me an email with the details.

We are at the conclusion, my friend. Next up, We have Tim Padavic joining us to discuss how you can offer no money down financing to your retail Fix and Flip buyers while actually receiving all of your cash at closing. This is a valuable topic for Fix and Flip investors and real estate agents and it works in all 50 states exciting stuff. Right? Well, that is a wrap.

Presenter: 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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