Voice-over: 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'm your host, Dan Breslin, and this is episode 209 on real estate development with Karl Krauskopf. If you're in the building wealth through real estate investing you are in the right place. My goal is to identify high-calibre 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 and more in the business of real estate. Karl is a multi-family real estate investor and developer based in Seattle, Washington. He is the managing partner of Aurora's Investment Group. Real estate development, specifically the entitlement process, can produce large gains without the risk of construction. Flipping houses is a great place to start in real estate, but it can be challenging to scale, which is why many real estate developers progress to the development of land and larger projects after finding success in single family homes. On this episode, Karl and I discussed this as his recent or past transition to larger deals and the same transition that I am currently going through myself. Shall we begin? Hi Karl. Welcome to the REI Diamond Show. How you doing today?

**Karl:** I'm doing well. Thanks for having me today. I appreciate it.

**Dan:** Yes, for sure. So we always start off with a kind of location stamp. I'm in like a gloomy, foggy Chicago day here as we record in the spring of 2022. That doesn't feel like spring yet in Chicago, but whereabouts in the country or world are you recording and operating your business?

**Karl:** So I am both in and operating in the Seattle, Washington, area, and I feel you too. It is dark and gloomy, and it has been dumping rain, which is uncanny for us here in Seattle, and it's cold. I was out in the field today for about four hours, all of my projects, none of them had heat inside, so I was not prepared. I went in a thin rain jacket and a flannel shirt, and I froze and shivered for four hours straight. It was not fun. So I'm glad to be inside and talking to you today.

**Dan:** Nice. Yes, I have family in that area, so Tacoma, I guess, down into Portland. So, I went for the first time, and it was like November, which sounds just like the weather you're talking about, and...

**Karl:** Correct.

**Dan:** ...they're trying to get me to go again at some point. I'll have to do that. You can hear the joy in my voice.

**Karl:** Wait until the summer, the summer and the fall, and then you'll love it.

**Dan:** yes, and I'm just kidding. I mean, we had a good time watching the wildlife on the Sound, and we stayed right on the water, and we did make good time out of it. yes. So it's a lot of cool stuff up that way, and I'm looking forward to getting back.

**Karl:** Great.

**Dan:** Cool. So Karl, why don't you start us off with kind of the origination story, right? How'd you get into real estate and then maybe the progression of Karl's real estate career to what your business looks like today.

**Karl:** Sure. Happily. So, how I got into real estate was probably a little bit different from most folks. I got into real estate. That was 10 years back, I was a veteran and working in the healthcare industry. I was a director of corporate strategy and business development. So, that is where my passion lies, which is really around growth partnerships. How do we basically, how do we grow an entity of business?

And what ended up coming to fruition and what bore the real estate endeavour was my wife and I going into a conversation about wanting to start a family, wanting to have a kid, and what better way to start a side business, which would become my future business, is having a kid. So, spent about six months during my wife's being pregnant, self-educating myself, really learning how to maximise my income, as well as getting into diversifying my income by adding additional streams of revenue. Decided it was time to take the first leap, which was buying a duplex, a remote duplex across the state from me, and with full intentions of rehabbing, refinancing it, and repeating it. Come to find out that I was not the right asset for that. And now I just spent about $75,000, the majority of my at that time, disposable income in putting it, parking it into a duplex that had no direct path for the refinance. So, I started sweating. I was nervous, didn't know what to do. We were about to have a baby. So I figured what's the best next step? Well, the best next step, apparently at the time was to flip a massive home. My first flip ever, it was a hoarder home too. Fantastic idea, right? No, it was awesome. I believe it was four dumpsters' worth, 440-yard dumpsters' worth, of junk that we took out of this home. All this direct to say back is, I'm working a 40, 50 hour a week job as well as we just had our newborn, and apparently I'm a glutton for punishment.

**Dan:** So, we have to pause right there. I want to know what the conversation was with your wife. She's either at a very late stage of pregnancy or she just had this newborn baby, and you guys are now welcomed into parenthood, and the solution to the big problem of the duplex is to flip a house. How did that conversation unfold? Were you guys both on board? Was this a co-decision or I'm sure there's listeners who are dealing with or have dealt with very similar situations, so I'm curious to hear how that unfolded.

**Karl:** So, I would say that without sounding too cliché, that my wife is truly my best partner in the business. She's hyper supportive. Now, obviously, there's been times where it's been 7:00 p.m., 8:00 p.m. nights, and I was out in the field and it's, "Where are you? When are you coming home for dinner? "What's going on?" But leading up to that, again, my whole, the six month self-education side, any free time that I had, I was talking about it. I was educating myself on it. And some of that obviously spilled over into my wife's life as well. And she the passion, the spark in my eye, that this business was bringing back to me, right? I spent 10 years working in healthcare, wasn't tremendously happy with the work that I was doing, but then now I started to get into something brand new, and she saw again this spark back into me that really revitalized me as a person. So, I think, the progression was primarily supportive. Supportive, but nervous. Nervous in the sense that this is going to take a lot of time from him, which is going to take a lot of time from me being me, speaking from my wife's perspective, from being able to raise this newborn. And so, it was certainly a challenge, and we definitely had some arguments at times. And again going back to 7:00 p.m. nights, "Are you coming home? You having dinner with me? What's going on?" And it was certainly a challenge and certainly not for the faint of heart. Again, I just think, she was incredibly and still continues to be incredibly supportive in the crazy hours.

But one thing that I love about the real estate space is that it provides flexibility that it provides. One thing that I never thought about was moving from a 40 to a 50-hour work week and thinking, I'm going to get into this flexible lifestyle of real estate, and then about three months into it, and still to this day, it's 80 plus hours a week. But, honestly, the difference is that we love it. We absolutely love the work that we do. It doesn't feel treacherous. It doesn't feel like it's a long work week at all. But we flipped a home, we did really well on it. We turned the profit and the three new flips. Two of which turned out to be profitable, which two of those were great. One was unfortunately overturned. And I was the victim, I and the seller for victim of identity theft.

**Dan:** Oh, wow.

**Karl:** We have money that we put into it ended up getting some cost, and I lost that money. Luckily, it happened. I got the lawsuit after about a month and a half, we only spent about $26,000, which is what we ended up losing in that.

**Dan:** Now, with that $26,000 loss, sorry for the interruption, but would that $26,000 loss have been fixed? I mean, what was your purchase price on that one?

**Karl:** We purchased that for $300,000.

**Dan:** So, let's say you probably had 300 title insurance. If you were to have packaged the renovation into the title insurance at 380 or something, would that have been like a protection against that?

**Karl:** That's a good question. So, title insurance only covered about 275, plus or minus. 275, there was a $25,000 fee in between, and then I came in and added in the rehab cost right there. So, luckily, we didn't go any further on the rehab, right? We had another about a hundred thousand dollars left on the rehab. So, we didn't continue in, which was great. We didn't lose any more money, but we ended up getting title insurance. We ended up getting that fee return back to us. But what ended up getting stuck in the deal was that rehab money. Now, we could have done things like gone out and did put a mechanical lien on the property because we did improve the property, but there were some other legal implications that our attorney advised us to do otherwise. So, that way, the seller just dropped the claim against us, and everybody just parted ways at that point.

**Dan:** Yes, I don't think anyone flipping houses ever wants to have a higher closing cost, and they probably doesn't add in their construction costs into the title insurance policy. And like, here's a- and usually, Karl, everyone says, "Ah, yes, nothing ever happens. It's real estate, what possibly there's never any claims." Like, here you are with the claim and the nightmare that occurred on the heels of that, that's why we buy insurance. So, I digress. So, let's talk about the progression. So, where's the business at now? What's got you excited? Why is this so engaging for you at the current moment?

**Karl:** So, now we are working on development. So, one of the big things that we saw in I guess I should say, that I had seen at the time was it was difficult for me on my own to scale a business in flipping homes. Specifically where I was operating as my own general contractor, and I was operating as my own general contractor, my own acquisitions person. So I was a one man show at the time and decided that the next progression and the way for me to get into a being able to build a team, albeit through enough margin, was through development, development of townhomes. Basically, working in an urban setting where density allows for a high volume of units or homes, townhomes to be built on a single lot. And I moved pretty quickly into- I keep saying I am, we, I'll get into that in a minute. But you know, at the time, this is early 2021, when I got into the first development, I was still operating as my own entity. I partnered with my current business partner back in March of 2021. And he and I are still working together and continued to grow together under Aurora's Investment Group. But again, at the time, it was just me. So, I saw that development was the way, was route to go in order to scale grow a team at that time decided what better way to scale as well, not only in development, but in the real estate world finding a partner. And since then, my partner and I have gone from what was a six-unit development to now 13 units under development, with several more in the works right now.

**Dan:** So, on that first, I don't know the deal where it was development. So like, I don't know, we'd done hundreds and hundreds, maybe thousands plus single family deals, tons of transactions, quick, easy, repeatable for us tons of flips, tons of money lost on flips. We screwed up more profits on the ones we didn't, but I always had to dream of developing, or like division someday, maybe I'll build, I've even kind of- right now it feels like for me, a little bit of a distraction on pencil and out like a hundred unit apartment complex out here in suburban Illinois. And that would distract me from the main business, which has a lot of [inaudible]. So, I don't do it, but I'm curious on the first one to however many of the projects are, did you have a mentor or maybe did this partner bring this skillset to the table where they had done it before? Or was this like a total faith walk?

**Karl:** It was definitely not a total faith walk by any means [crosstalk] yes. No, not at all. So, I would say two mentors, one mentor on the syndication side of things, which is how we got into that development. And the other was on the construction management side of things. So, I learned both how to raise capital, how to structure deals from my syndication mentor, and I learned how to properly manage subcontractors as well as general contractors from my construction management mentor, and both of which I'm still very, very engaged with. They still coach me, they still mentor me to me today. And I owe a lot and if not everything, back to those two people. But so taking the knowledge, the lessons I learned from them moved it into a development I had found and partnered with a builder developer in the area and builder developer think of this as a higher echelon or higher scale general contractor. And he is well known in my network, my circle, and decided to move forward with him as our builder and paid him obviously a general contractor fee. And it's been fantastic, and we just sold all six units and we close on all of them this month.

**Dan:** Congratulations.

**Karl:** Thank you. I'm excited. We parlayed that relationship into a second development as well that we closed on the purchase of last October, 2021. I was just on site with them this morning, and we are in our rough and stages, our sheetrock is going in tomorrow, and we should be looking to sell in August or September of this year.

**Dan:** Nice. God's speed on that one. Did this builder, is that the same partner that you have since March of 2021, or is that...

**Karl:** No.

**Dan:** Okay.

**Karl:** Different.

**Dan:** The mentors, are they paid mentors or are they people you just happen to know, like, how does the mentor relationship work? I'm not a humongous fan, and I think people- I've paid mentors in the past, but I'm a bigger fan of finding mentors that are almost partners in a sense that we have vested interests together. We're working together, we both fail or succeed as we're working on a project. And I found that's when I'm not being a nag to the mentor and I'm like taking too much from the relationship and we're both getting something out of it. So, I'm curious how you think of mentors how you've maybe formed those partnerships. Maybe there's even some takeaways for the listeners if they're thinking about approaching somebody in their market to be their mentor, whether it's in development or any other business or even life in that sense.

**Karl:** Sure. Sure, sure. So the formed partnership process was certainly not something that happened typically. So, one of the mentors just so happened to be- we had shared interest in hiking and reached out to him, didn't really know who he was or what he did at the time, saw that he was a real estate bug and that he was also a hiking fanatic. So, decided to reach out and we just blossomed a friendship from there, figured out, what he did, how he does it, and this gentleman is just so incredibly generous, was incredibly generous, and still continues to be generous with his time. It's never really been a kind of a formal sit and get type relationship. It's always just a friends hanging out with each other, picking brains and trying to figure out and ultimately, it's how do I bring value back to him.

And this will go into the next mentor, who is my construction management. He and I did end up partnering on a flip two years ago, a year and a half ago. And I look at him, I look at the work that we did there as the catalyst to being a successful in the business now from a construction standpoint. He really taught me everything from managing, how do you manage the individuals? How do you manage the subcontractors, properly get that bid, et cetera.

Now, it's how do I bring value back to both of those? So, on the syndication mentor, if I don't have the capital or rather if I don't have the investment opportunities ready, seeing that teed up and ready for my investors, if anybody's looking to diversify outside of a multi-family or the residential space this individual works in the commercial space. And please, by all means, like, this is a great person, he has a great company, highly recommend investing with him. So it's always pointing value back to these people.

And then on my construction management, who's also- that would actually say now as my development coach as well, development mentor as well, is how do I bring value back to him? Now, I'm looking at these covered land plays, which is buying assets on let's call an apartments or town home or home on underutilized land, meaning let's say it's a single family home on multi-family land, or it's a eight unit, which is what we're working on right now, an eight unit apartment, single story on mixed use land where we could take it up to five stories high. And so now it's, now it's working with my mentor of like, "Hey, like, I want to bring you in on this deal as a no risk partner. And I want you to bring in your redevelopment and your development knowledge, mentor us, and we want to give you a cut of the equity. And so, yes, he's still going to be involved from a work perspective, but only from a high level. This is how we think that this is how you should structure it and continued engagement on a low low touch basis. While, in the end he's obviously going to get a sizable chunk of equity depending on the route that we go.

**Dan:** Nice. Let's pull that deal apart just a bit. What are the economics, the returns, the investment, the equity stack, and what does the debt, the whole capital stack, look like?

**Karl:** Sure.

**Dan:** What are the passive investors in there for? Let's run this whole thing down as if I were going to invest in the deal.

**Karl:** Sure, sure. So, this is a purchase of about $1.5 million, and we are going to secure about a 30% equity loan, it I should say a 70% LPV. From there, we anticipate on doing some minor rehabs, nothing much really, just truly getting into a sustainable model, so that way we can continue to hold it for a three to five year timeframe and during that timeframe, go in and get the entitlements to take it to its max potential, which would be a five story mixed use building.

So the equity requirement there is 30%, and the debt is the 70%. From a raise perspective, we're also looking at bringing in an additional, I would say, about a half million dollars worth of capital in order to fund the redevelopment process. So, going out, hiring architects, structural, all of the engineers required to put together a full construction set plan and actually go through and get to a permit ready position.

Now, the interesting and exciting thing that I like about these covered land plays is, I would say, twofold. A, the ability to go through the entitlement process with either A, the ability to scratch by with a little bit of cash flow or, worse case scenario is you have a small loss. Where maybe it's a couple hundred, maybe it's depending on the size, a thousand bucks a month of negative cash flow per month. But you look on the far end of this, and our exits is, and this is where I'm going to go into the second reason I like these covered land places, the exit strategies on these are- there's typically two strong exit strategies. A, it's selling the permit to another developer. So in this instance, we would go from a 1.5 purchase price, half a million dollars of additional capital required. Our total cost basis is, let's call it 2.1, 2.2 million dollars, assuming all the origination and everything like this. And then what we're looking at on the exit value, if we simply, if we sell the permits. So our risk is relatively low because we're able to...

**Dan:** That means the whole project, right? You're selling the building, the land, and the permits, it's shovel ready for this next buyer?

**Karl:** Yes, bingo.

**Dan:** Okay.

**Karl:** Bingo shovel is ready for the next buyer. Exactly. Thank you. And our exit value on something like this is about three and a half million dollars. So total cost basis, 2.2 exit value, conservatively 3.5, decent size spread, relatively low risk, because we have an asset covering the cost for the most part. So exit strategy one, we've got a decent margin built in with, again, little risk.

**Dan:** And that's how many units are in the building for 3.5 million?

**Karl:** Sure, I would presume it's going to be about 35 to 40 units within the building and two to three commercial spaces on the ground floor.

**Dan:** So what is called it 40 for the sake of a math $87,500 per unit direct cost there.

**Karl:** Yep.

**Dan:** Okay.

**Karl:** Yep. Now, the alternative depending on obviously market, depending on the cost of construction at the time that we received permits, which again, we expect would be about three years. Going through the full process about a three year process to get permits for an apartment complex, which is- I don't know what some of the other markets are, but here in Seattle it seems like permits take substantially longer than required time. So three years and it depending on a cost of construction and things like that, we could also decide to take it all the way through building.

So, we would go in, build out the entire unit itself. And we would either A, sell it, typically you half lease or get there close to a full lease, sell it out to an another investor investment group, or B, refinance and hold it. So, really, the extra strategies are strong, which is great, which is what we love. And at that point it's difficult to say which exit strategy we would take. Because on the build out, we're presuming that we're going to get to an appraised value, which thankfully our neighbors actually has already done the exact same play. They're at an about an appraised value of about $20 million.

**Dan:** Do you know what they're getting per unit there and how many bedrooms are in the neighbouring building right now?

**Karl:** I don't. I don't. But I don't a from a top line, no, I don't.

**Dan:** Okay. Do you have an idea of what these units rent for now and what the new units are going to rent for when it's done? If you had to guess right now?

**Karl:** Yes, good question. So those units, actually, I just remembered that I had a conversation with one of the tenants in the eight unit. So the neighbour is getting $1,200 per month for what we call SEDUs, Small efficiency dwelling units. So, these are apartments that are about 250 square feet.

**Dan:** Wow.

**Karl:** So, rents on those are just insane. But in my opinion, it's not necessarily the specific, the best spot to put a SEDU. So we'd probably- during feasibility we'd go in and figure out what's the best route that we're going to build these small efficiency dwelling units, or are we going to build market rate units, one bed, two bath, or excuse me, one bed, two bed style apartment. So, we do that during the feasibility and during the architecture processes.

**Dan:** Do you have any notion as far as the area, if we're looking at that localized market, and you don't have to share it in case this building is not in a contract or what have you, but, what the local township's appetite's going to be, do they desire these smaller dwelling units?

**Karl:** Absolutely.

**Dan:** Or do they want the ones and twos?

**Karl:** Good. Okay, I see where you're going. That's a really good question. I SEDUs the small efficiency dwelling units, they are a very, very hot product right now in this area. I am not necessarily bullish on them, however, and the reason being is the end buyer, right? So, whenever we do decide to sell, whether it's seven years, 10 years, 30, 50 years, whatever it happens to be, because it will be sold at some point, the SEDUs buyer pool is much smaller than the market market rate buyer pool. Typically, whenever you open up an offering memorandum, probably one of the top five things you'll do is go look at the unit mix. And if you see zero diversification within the unit mix, mentally, you're going to mark the offering down a notch. That's because there's less diversification, which means less risk mitigation in case this SEDUs product takes a hit, right? Whether from a cap rate perspective I mean, it's never going to be going to be a cap rate because, you could potentially get renters that want something completely different than a SEDUs, or, maybe it's something generational that changes. So, my opinion, I'm more bullish on the market rate units as opposed to the SEDUs.

**Dan:** Yes, in personally, if I look at some of what they claim is just like skyrocketing demand right now is if you google like the population by age, there's kind of this like what do you call like the love handles if you will. And then like as you get to the older segments of the population to 80, it's like real small, you know the head and it's kind of the big wave of population that is, let's say 23 to 35 years old right now, it's kind of the biggest one is the baby boomer's children, essentially. So, it's this next wave of people that are coming through, and these are the ones that we see renting and buying, like in South Philly, where we're seeing a tonne of gentrification happening. This is who's buying on the belt line in Atlanta where we saw like the west end, anything on the west end down in that belt line is tons and tons of millennials are moving in and buying them. And to your point, it's like, are they loving the SEDUs now? But what about when they get a significant other? And what about when they decide to have a family? What about when they get a promotion?

So now does that wave now move where maybe if it was a two bedroom or one bedroom unit, they continue there for another year, two years, three years, but you could have this like vacuum where there's not going to be this rapid rend growth in the SEDUs as you call them. My own personal investment philosophy, I'm looking for bedrooms and baths. I want to buy as many bedrooms and baths in my apartment units as I possibly can. I buy them in Chicago, in small buildings, you know, 6, 8, 10, 12 units, and stuff like that. I don't- I take some one bedroom units, I take like an efficiency or two, but if it's like a full building with eight one bedroom units, it's a hard pass for me. And for me it's a matter of turnover, Karl. Like, I just think my belief, and I've only been doing it for a few years now, but my belief is that if I have someone in a two bedroom unit, maybe it's a single person with the office and now they've piled their office in, they're not as inclined to move. If they're just going to continue there for a while, they may not need more space, and that's the turnover risk basically. I got turnover cost, so it's like as soon as that single person living in my one bedroom unit meets somebody, the place is too small, they're gone. So, I feel like, and I don't have data to prove it out on my own portfolio, but I feel like the more bedrooms I have, the less turnover I'm going to have. And like my investment philosophy, it is completely driven toward happy tenants who are going to stay in my properties for a long period of time.

**Karl:** Yes, no, it's absolutely right. Sure, it's anecdotal, but it's absolutely right. It's the two bed plus is you're going to have longer term tenants as you move down in size, that's going to have more turnover. And I think not only that, but on the smaller side of things, right? In the two hundreds, especially, price is the commodity. A tenant will move across the street, will move across the neighborhood. If they can find a property, a SEDUs where they can save 50 bucks a month. So, now we're supplying the market with these SEDUs, and now it's a pricing war. Now it's a rent price war where the cheaper you can build, the cheaper you can rent, the more [inaudible] occupancy you have, which means these other ones that may have built for a higher cost, sure they have more amenity, they may have more amenities and we're not talking about a lot of amenities, but sure, they may have some more amenities. If they're getting beat out on cost, the tenants are going to move elsewhere, which means that those owners or you're just going to have to either A, hold their rents flat or even move their rents down. So, it's not a place that we necessarily want to operate. Yes, developer yields will be substantial in SEDU's product, but to me, I look at the the exit as well. And if the exit strategy is somewhat debatable or is somewhat in question, it's not necessarily where we want to bank our money,

**Dan:** Especially, 7 to 10 years from now. So, we have $1.5 million, $450,000, so we have a million dollar cap raise on the first phase of this project. What does that look like for investors who are going to put in their money?

**Karl:** Sure. So, generally speaking is we on our developments and redevelopments, we look at anywhere from an upper 20s to a low to mid-30s annualised return. And again, that's typically either on the--whenever we buy permit-ready sites on townhomes at 12, usually we like to market that from a 12 to 15-month liquidation standpoint to these redevelopments that are going to be three to five years old. So, again we're looking from an IRR I don't have it in front of me IRRs we're on this one was upper twenties.

**Dan:** Okay. So, it's kind of going rate, and it is because it's a lot of risk, right? Where's the market going to be in five, seven years, three years, whatever the case is.

**Karl:** Yep.

**Dan:** Although the whole Seattle Puget Sound area is a very, very constrained real estate market with a lot of developable land out there that's even available, compared to Texas.

**Karl:** Correct. The other thing that I would mention about and why I'm so bullish on the Seattle Puget Sound market is that there's obviously technology is a big one that Amazon, Microsoft, and then some of the other big ones, Facebook, Google, Apple, have moved into the equal, what we call the east side. So, you've got Seattle that is bordering the Puget Sound, and there's Big Lake Washington, just east of Seattle. On the other side of that is Bellevue. And Bellevue is where a lot of the big growth is happening right now. And so that's still obviously impacting Seattle and Seattle real estate. That's about a 20 minute commute between the two cities. That kind of like you mentioned Texas, kind of like a Dallas, Fort Worth type situation. And one of the specific industries in this region that I really love is cloud computing. And I don't want to talk ahead of myself, but, cloud computing is this wildly underutilized technology and industry right now. And if you look at the big players in it, it's Amazon and AWS, and I believe it's the [inaudible] which again, it's a Microsoft product.

**Dan:** Yes, yeah. I mean even Google Cloud, right?

**Karl:** Yes.

**Dan:** But they're not up [inaudible]]

**Karl:** So, you've got these two massive market shareholders in a industry that is underutilised at this moment. So, in their headquarters, they are based locally. So, from a dollars and cents perspective, I still think that there's still plenty of runway in the Seattle Puget Sound region.

**Dan:** Yes. My anecdotal little testimony for the growth of the cloud, it's like, I forget how long ago I started building and hosting different mechanisms of my business. We flip a lot of houses, we use Podium, and we have this entire other software stack that has tonnes of the Google Cloud woven in, it's cloud fair. I don't think we have any AWS stuff. So we're, we're driving primarily on Google, but the bills double and then they double again. And, like, what am I going to do? Am I going to go somewhere else? Am I going to build a rack of servers in the office? Like, that's not even an option. The speed and ability to even do the tech things that we're doing as a company right now, coming from the cloud is like so exciting. Like, I have no interest at all and or ability to be able to like shop that service. So, it's like a-

**Karl:** Right.

**Dan:** It's as big as the railroads back in the 1800s, coming down bigger even, and it's just getting started. Cool. So, as we get to our wrap up here I have a couple questions we're going to start with. So, you know, real estate developer businessperson, what would be one or two books that you would recommend to the listener?

**Karl:** Sure. You probably haven't heard of them, I wouldn't imagine. The first one is, to me, a life changer, it's all about innovation, it's changing the world. It is by Peter H. Diamandis, and it is called Bold, how to-- I'm going to butcher the subtitle of it, but the title is Bold, subtitle is "How to make an impact and how to change the world in a positive way", right? It's something along those lines. This is a book that just has an insane amount of ways to just think about different issues and come up with different business solutions. So, I would say that's kind of my number one non especially real estate related book.

**Dan:** Nice.

**Karl:** That I'd recommend. And then the second one is Grant Cardone's, Be obsessed Or Be Average. So be Obsessed or Be Average again, goes towards my kind of one of my personal core values of obsession and growth and just being so focused on growing as a person, growing as a business not just for our own personal reasons, right from a wealth perspective, but also, we're creating these products that people can actually live in. And our goal is to create them in an affordable way. Yes, we want to be profitable, but we also want to make an impact in the community. And I think one of the biggest and best ways to do that is providing quality housing at an affordable rate. And so, going back and circling back, I should say on the growth and innovation side, those are two books that I absolutely love and recommend as much as possible.

**Dan:** Nice. So we'll have the crown jewel of wisdom. If you could go back to the day before you signed the contract on that duplex and you could share the crown jewel of wisdom, everything you know now, what would you go back and tell yourself that day?

**Karl:** Ooh, that's a good question. So, I would say it's know who you are working with. So there's an investor, I call it, the investor triad. It's not my term at all. It is first you have to know somebody, then you have to like somebody, then you can trust them. And to me it's- I knew the broker that I worked with, but I didn't like them and I didn't trust them. And so I didn't get myself into the best asset. Now, I ended up with cash flowing and I ended up selling it and making good money, decent money, but it wasn't necessarily the best product for me. But again, no regrets. It was a great purchase. Again, no regrets on that. So to again, circle back, answer the questions, it's know who you're working with and make sure that you'd like and you trust them before you get into any large business decisions.

**Dan:** Yes, and I would probably like caution almost, I remember real estate agents when I first got in the business, and some of them I did, like, I wasn't qualified to figure out if I should trust that person at the time. And a lot of times, I think for a newer person getting into the business, Karl, the realtor has a license and they know who the title company is, and they just know so much more about the business. But now, from both of our perspectives, and even from the audience listening right now, they're like, yeah, I know a lot of agents who got in the business know what a mortgage and deed is, but they don't know how to select a proper real estate investment. And so if you're new, you definitely have to be guarded and do your own homework because the realtor probably doesn't own their own investment properties. And maybe if they find a really good one, they're probably going to add that to their portfolio, so they're not going to [inaudible] the right deal.

And I think a lot of times I ask the book recommendations on this show, and we get the answers. And I've read tonnes and tonnes of books. I'm going to check out Peter's book. I've known Peter watched his videos on YouTube and everything, so I'm interested to check the book out now, appreciate that. But I think one of the things, even with book recommendations, like when I mentor people within my company, or even just like friends or people that happen to cross my path, I, as the book recommender, oftentimes have to figure out, "Okay, where on the path is, Karl at." If he's asking me, "Hey, I'm looking for a book of real estate." Well, does he own 20 properties? Does he own zero? Did he come with an MBA from a successful career in business strategy? Is he waiting tables? Is that where he is coming from? And I think a realtor it's like an investment advisor, right? It's like, not that we're giving investment advice, but a lot of times people are going to like accidentally take advice without realizing, "Oh, the person doesn't even have the context of my situation to make the right recommendation for this asset or this book, or this course of direction, right?" And so it's hard because you don't know what you don't know, and you are at the bottom of the ladder you're trying to climb up. So it may be hard to recognize whether that person has your best interest at heart, or a lot of times the realtor is going to have conflicting interest because they really want the commission cause they really have to pay their rent or mortgage are at the end of the month. So, it can be a very tricky dynamic for somebody who just gets in the business and is pulling the trigger on that first one, you know?

**Karl:** Yep. Yes, no, I completely agree. I think that makes sense.

**Dan:** Cool. So, we talked a lot today. I do want to give you a moment to make a ask of the audience if they'd like to find out more about you or the Aurora  Investments Group. Where can listeners go to get that information, Karl?

**Karl:** Sure. So we've got two great places. Our first off our login page, aurorasinvestmentgroup.com. And secondarily, we've got Instagram, we're on social media as well LinkedIn, Facebook, et cetera. And Instagram is our handler; there is @Aurora's Investment Group. And from a Facebook, LinkedIn perspective, you can look me up by my personal link and you're welcome to connect with me there. Any questions, comments, or concerns? You can certainly reach out to me directly via email. It's karl@aurorasinvestmentgroup.com. And happy to chat about what you're looking at from a investment perspective, multifamily development, any questions there as well, and answer any questions about the Seattle Puget Sound region as well. And that also includes the crazy politics, the homelessness crisis that we've got up up here, no bar look forward to any and all conversations.

**Dan:** Yes. And I was like, I was looking at the site here as we were getting ready for the show, and I saw the application come through, I guess, months ago. Lots of cool houses. And I was like, "Oh, my God, does he have a homeless guy on the steps there of his architectural rendering?"

**Karl:** Oh, my God. Which one is that? Is that I attached to you?

**Dan:** It wasn't, but it's a reason for people to go to your site to see the picture that I was talking about so they can decide for themselves if it is a homeless guy that's on the stage.

**Karl:** There you go. I wouldn't be shocked.

**Dan:** The Auroras, have you actually seen those lights in the sky up there? I mean, I was so bombed that we were there and we didn't have the timing down.

**Karl:** No, I haven't seen them in Seattle area. I did go with my wife to Iceland in the dead of winter several years ago. And after the third or fourth night of just sitting outside waiting, honestly, man, it was crazy. Like the sky looked like it was cracking open.

**Dan:** Wow.

**Karl:** Yes, it was wild. It was wild.

**Dan:** Yes. On the bucket list for sure. I was curious if that was part of the inspiration for the name of the company. Hey, with that, I guess we'll wrap it here, Karl. Thank you for coming on the show. I had a blast, a couple pages of notes here. I appreciate you flocking out the distractions and giving us of your wisdom and knowledge today.

**Karl:** Likewise. I really appreciate it. Great chatting today.

**Dan:** Thank you for tuning in to the REI Diamond Show. Remember, to review and subscribe on your podcasting app, just search REI Diamonds and click subscribe. Interested in receiving the weekly big ideal email where I provide the most valuable jewel of wisdom that I discovered during the recording of the most recent episode. Sign up at reidiamonds.com. At that site, you can also access the 209 episode archive. Again, that's reidiamonds.com.

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Well, we are at the conclusion, my friend. Next up, we have Dave Foster joining us to discuss 1031 exchanges in detail. Mastering tax efficiency in your real estate investing is paramount to quickly multiplying wealth into millions of dollars. I'll catch you and Dave on the next one, my friend.

Voice-over: 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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