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

Dan Breslin: All right, welcome to the REI Diamond Show. Kranti, how are you doing today?

Kranti Ponnam: I'm good, how are you? I'm excited... [crosstalk].

Dan: Yeah, you and me both. You and I were talking before we got to record about me having to cancel and you twice, and I was like so excited and looking forward to the episode once our booking agents started the conversation, like wow, here's a really cool conversation. We're going to have multi-family investment syndication in the Atlanta market, which the listeners know. I love the Atlanta market, I'm bullish on it. It's going to be a great market, I think for another five, 10 years at least into the foreseeable future. But you also had this tech data driven background, which I think is unique, right? For people who come on the show and people who are usually syndicating real estate deals, usually they start flipping houses, maybe buy some things, develop, buy, build a three unit, and now they're going to buy a 100 or 200 unit apartment building. I think your path was different and that was part of why I was excited. Maybe you could tell the origination story, the brief play by play on how you got to where you're at and what the business model looks like now.

Kranti: Sure. My background is an engineer, and then came out of college, took a job in a field that was totally unrelated. I went to school for mechanical civil engineering master's degree and then came out and did work in the technology space. So always was in the technology space. But growing up, and I grew up in India, my dad, my whole family has been in real estate and real estate was more of a second nature. So once I started making money and started building businesses and going into it, I've never invested as much in stock market, still don't believe it one bit. So I have some holdings, but always been a believer of real estate and that's how I first started buying. I bought my office complex that we basically had our company located. I think we did really well on that particular building and sold it in about a span of eight years for five x the price.

Dan: Wow.

Kranti: They were taking down the whole block. A developer came in to take down the whole block and was converting the whole area into multifamily. No, it was not sophisticated, I was buying small condos apartments in San Diego. San Diego is a great market in terms of the rental market. The rents here are probably one of the best in the country, but the problem is that the asset values are super high, so it makes it tough. So your dollar doesn't go too far. Condos here are typically $450 to $500. That's where I started looking at other commercial aspects of investing. The condos did great, probably rented 11 months out of the year average or more, but once you had a vacancy, you had a vacancy.

So I started looking at commercial real estate as an avenue and looked at assets outside of California because didn't have a lot of money to just invest in California. So my next investment was a retail strip center in Tucson, which is a great market, obviously. It is a secondary market compared to the Phoenix market and I particularly love Tucson because it has all the right things going, gets a lot of overflow from the Tucson market. From the Phoenix market, also has a lot of employment lower income taxes, lower cost of living. I still hold onto the retail assets. They're a great cashflow basis, but one thing I noticed with them was the values appreciation on the condos that I had was much higher compared to the value appreciation on basically retail strip centers.

Because retail strip centers are great. The cashflow, you have tenants that come in on long-term leases and they're triple net. There's not a lot of overhead, but unless you're buying at something that's at a Eight cap and during COVID, we brought the interest rates down to zero. Your Eight cap becomes a four or Five cap only in those situations you actually make money. Because then you're dropping 300 basis points and you're at a Five cap. We were able to exit on one of the deals we did really well, but back in the day, those values weren't moving a whole lot. It's 3% rental increases compared to what I have today, which is 20% in a good year. Obviously that's not the case now. So that's when I started looking at pivoting towards a little more on the value side, became an LP investor, a limited partner and started investing in...

Dan: What year was that? Sorry to interrupt, but for context, when you started the LPs, what year was that?

Kranti: It was about 2018.

Dan: Okay.

Kranti: That I started investing as an LP and invested money in a ton of deals. Most deals were the the Sunbelt states most deals were either Carolina, Texas or the Atlanta market. And worked with a couple different groups that I invested with. What I've always done, is I never try to invest with people that I don't believe trust in. I always want to work with people that I have a little bit of, even if they're newer, have the right work ethic, understanding in business how partnerships work. You really have to trust them, know them, and work with them. So, got referred a couple times to a few good people start working with with a couple groups. One of the groups is my current partners was Four Oaks Capital.

Obviously my lessons with building businesses and building it sometimes through partnerships and sometimes by my own, I've realized that every relationship, be it personal relationship, professional relationship is just not what they're giving you, it's basically what you are actually contributing. So when I first started working with them, I saw how they operated and then we were able to exit a deal within nine months or 12 months and I did well. My vision was obviously to help my own friends, family, and employees. I've never believed so much in the stock market. I still have holdings and everything, but I just don't believe that if you put away money for about 30 or 40 years in a 401(k) plan, you will be re ready to retire when you're 60, 65 and have the money last for the next 20 years.

I just don't believe it. It's not possible because with an average saving that you have, considering inflation, considering how the stock market's done, and it's not how the stock market is done, most of the times, most financial advisors, the thing that they don't tell you is they never make or they never are able to beat the market's performance, which is the market's been 8% to 10%

average over a 20 or 30 year period. So I just don't believe in it. That's where I started bringing investors to Four Oaks. I became one of the people that actually was signing the loans on some of these deals. Most of them are non-recourse. They wanted people with more net worth on deals that were bigger size and it just so happened that my partners were like, you are doing most of the work and you're a GP on a couple deals anyway. It will make sense to actually partner where the experience of building systems, processes, businesses, and then the capital piece would be helpful, beneficial to Four Oaks where both of them back then were working w/two jobs and we wanted to put more structure on the business, wanted to put more processes, wanted to actually automate a lot of the things that I've been able to do in my IT services companies, and then bring that knowledge and expertise to real estate.

So that's how we ended up here. We currently own about couple thousand units, most of them focused in the Atlanta market. We have some assets in Carolinas and we do syndicated real estate. Most of our deals we give returns anywhere between 16% to 18%. Obviously, COVID has been very good to us. Our average return has been over in most deals that we exited has been around 20% to 40%. But we're now in a different environment, different interest rate climate, so things are all subject to change.

Dan: I'm going to start with the market selection thing from my own perspective. I was, in 2015, I don't know, 35 years old, something like that. I moved from Philadelphia to Chicago so that I could be local to my daughter who had been living there. I was doing the weekend, once a month plane thing. I knew I'll regret it on my deathbed if I didn't go to Chicago when I had the financial ability to do that finally in 2015. So I did that and when I got there, the real estate was way more expensive. I mean, this house compared to this house in a similar neighborhood was double the price. I don't think that's the same. It's probably triple or quadruple if you were to take that same calculation to San Diego or San Francisco market.

But where I'm going with this is the rents were much higher in Chicago too. So I had already owned a small portfolio in Philadelphia, and then I started buying multifamily portfolio in Chicago, and I really liked the high rent. So I had to pay, $500,000, $600,000, $700,000. I had to pay a lot more money to get these small apartment buildings than I might have in Philly. But the higher mortgage has higher pay down, and then as those rent increases came in, now those increases, made a more substantial difference in the global cash flow picture, if you will. So I did my podcast since 2015, and I remember I had a guest from the Atlanta market. I don't recall his name, but his recommendation was it Trend following. He said, here's this book. I forget the guy's name, it's called Trend following, and it's a stock book. He said, now I've read this and he's in Atlanta. In Atlanta's market, we bought this lot for $20 and now it's worth $80. And people are looking at me saying, why are you buying this for $80,000? These prices are crazy. He said, well, I'm trend following, and if it's going up this far, there's a really good chance. There's like fundamentals in the market in Atlanta. They're going to make that continue to go that same lot. Today, Kranti is probably $350,000. If I had to guess, knowing where it was located, and it was on the heels of that podcast, I said, I want to be in the Atlanta market. So we did that and we went into Atlanta, and I think that was 2016 that we started doing business there.

We were there through the entire development of the West End Beltline. So when we went down and took our first walking tours through the neighborhood, there was like not a single family person living on. We would hold blocks and these houses looked in such rough condition. I'm like, there's no way these are anything but a tear down. If you were to go down that same block now, there might be one or two houses that are still in that condition. Every single other house has been bought and renovated and resold. And those houses probably sell for between give or take $400,000 for like nice renovated product and it's a beautiful area. The industrial has redeveloped, and that's just the one small section in the West End, which is in Atlanta where the Beltline was located. We've seen the development off the charts.

The inventory's gotten lower. There's a ton of new construction going on, and the prices across the board. Obviously it's happened in every market, but I have the office in Philly, I have the office in Chicago, and I have the office in Atlanta. So I have three markets perspectives that I'm following with a single family over a course of about the last 10 years or so. The Atlanta market has definitely outperformed them all. Now, I haven't tracked the rents as closely, so I'm not as in tune with what happened with multifamily other than anecdotal stories from guys like yourself who describes some colossal winds on repositioning three or 400 unit apartment complexes. Would you mind talking me through your guys doubling down, if you will, that I assume has taken place in the last few years in the Atlanta market and why you did that?

Kranti: Sure. Part of the reason why and when we first started in Carolina's market, we were in South Carolina, tier two cities, they were still doing very well. We were having really high growth rates in terms of rental. So commercial real estate, multifamily especially is a factor of what your rental market is. Rents go up, property value, your income goes up, income goes up, obviously has an impact on the value of the property. That was working out very well. What we started noticing is with that, most of the times we had challenges with staffing. These properties were second tier, third tier cities. And then it was always a challenge getting the right property management people there. So one of our first deals within Atlanta market, we started noticing the impact of investing in a bigger market.

There was a lot of availability during COVID there was a lot of, we couldn't turn units because the inventories were not there. But if you take a market like Atlanta, you had a lot more options in that when you're working in a bigger market compared to a smaller market. What happened with Atlanta especially if you take Texas or Florida, they're now getting to a point where the pricing on most of the units, single family, multi-family, and both of them actually work parallel to each other. Are getting to a point where it's becoming super expensive. There's a lot of inflow from New York to Florida California to Texas, which has raised the prices and the affordability factor and the percentage of your income to rental ratios are compressing. Atlanta, even now, what we've noticed of all the big cities still has the affordability low enough.

They're still expensive, but not as expensive as the Texas or the Florida markets in the Sunbelt. That kept us interested. Obviously we saw the metrics related to population growth. We saw metrics related to the type of diversity, and we saw metrics related to how many companies were moving the jobs that were coming out. The way the city of Atlanta is laid out has the potential to expand quite a bit. If you look at the transit systems, even the transit system's pretty decent enough to allow for that expansion. And we saw a lot of the manufacturing like EV, the electric vehicle manufacturer, I think Rivian is investing quite a bit in it. There's a lot of good factors going in with keeping the affordability still within reach of most people.

Obviously COVID the last two, three years, we've actually seen rental increases go over 20%, 30%, which basically doubled our prices in terms of the properties that we had. And we saw that it made sense even for us to scale as a business. When you work in smaller markets, there's only so much that you can get to in a bigger market like Atlanta. The scale is there, you take flips or multifamily, the stuff that we do is very similar to what single family flips. We just are flipping like 300, 400 units or 100 plus units on a deal. So we're taking a non-performing asset using basically good management, putting more capital into it to convert it to a better performing or a better looking asset. So yeah, those are the reasons that led us to double down in Atlanta.

Dan: So we looked at the multifamily and we started shopping around. Is this a natural growth trajectory for Diamond Equity to be a syndicate and do just like what Four Oaks Capital does now. So we started shopping around at some deals and it just seemed like everything was so far overpriced. I guess a good place that we could ask the question is, have any deals closed that you guys bought in 2023? If so, at what cap rate may be on the go in, or maybe it's a yield to cost metric or something else that you could give us an example of. I'm going to go out on a limb, I'm not the expert. San Diego probably has a much lower cap rate. I don't know, it's probably 5% still, even though it's 7% for a 250 asset. Is that cap rate going to be different if you're in the Atlanta market going in versus, tier two Carolina's market?

Kranti: It is different. It's changing quite a bit as we speak, because most people were assuming the rates were going to be, everyone thought by now the Fed would start cutting and the higher for longer, the sellers are now processing the higher for longer. But San Diego, by the way, is more three and a half forecast.

Dan: [crosstalk] I knew it was low.

Kranti: Yeah.

Dan: I didn't have the stones to say something like 3% or 4% without, so go on.

Kranti: Yeah. So investing in San Diego it's still a great market. You just need to know how to invest, where to invest. But from an Atlanta standpoint, we did close a deal in 2023, we actually closed two deals. We never look at a cap rate going into a deal because most of our deals, they could be like a two cap when we're buying them.

Dan: Wow.

Kranti: It's not what we're buying it for. It's the value that we can bring out of it to actually realize the full potential of the deal. So during COVID, we actually left a ton of deals on the table because of how aggressive people were. Actually, that was a good thing and a bad thing because if you bought it early COVID, and there's been a lot of people that have literally double values in nine months and flipped out of them, but we just don't believe in it. During COVID, it went away from actually the NOI the income relationship to the asset value. It became, the next door is selling let's say $200,000 a door, regardless of what my condition of my property is, I'm going to be about $180,000. It was not apples to apples.

It was a comparison of comps that that was going on. We were not comfortable with it because we always go in where the cost basis is. We want to make money on the buy side and on the sell side we always want to buy under. So that it probably makes sense, and you're right, for someone who's coming in and trying to underwrite these deals, most of them would not make sense because most of these people were banking on low interest rate loans and underwriting to the rental increases having 15%, 20%, which now it's actually in a negative rental increase market. If you look at the average last three months in the Atlanta market, the rents have gone up minus 2%. So most people are actually coming in either renewal at the same rate or actually lowering it when you're signing a new lease. And now a lot of these deals are actually blowing up. The rate caps because these were floating rate loans. Now the interest rate's gone up to like 9% on some of these loans which were underwritten on these properties or underwritten at a 5%, your rate cap expired, and now you can't refi the property because there's no lender out there that's ready to take on this. And the lending standards have significantly changed. Lenders are really holding back and deals are not getting done.

Dan: What do you think a realistic appraiser's cap rate would be in today's market or an exit cap rate if someone sold a stabilized asset in Atlanta? If San Diego is three and half to 4%, what's Atlanta?

Kranti: Still about five and half to 6%.

Dan: Okay.

Kranti: Again, depending on what class A, class B, class C we deal with Class B, class C. So it depends on, on a class C property, it could be about six and a half. And you could probably get a Fannie Freddie loan today at 6%, depending on where the tenure treasury is. But those are about the cap rates that are going on the market.

Dan: Would you describe, for me and for the listener, what is it that creates the cap rate? Obviously the buyers are willing to pay, but why is the buyer willing to pay at the three and half, 4% cap in San Diego? And then why would you be willing to maybe consider, let's say, a six and half percent cap rate in the Atlanta market? What are some of the fundamentals or things that an investor would think were exciting to justify that going in cap rate?

Kranti: The justification obviously is you have to look at what the market's done historically in terms of rental increases. Your first metric is going to be, Hey, if I buy it at 3%, three and a half and my loan's at 6%, six and a half, how's that going to work? It's going to work not in the short term, but in the long term. You have to look at rental increases. When your rent has been going up solid in the San Diego market, average has been about 8% to 10%. Consistently year over year for a long time. Maybe you'll have a down year, but when you have a good year, your rental increases will kick in, and that will actually get you to a point where your debt service processing will be good enough.

But more importantly, you're to take into account how the values have changed in this market. We're not, I wouldn't say a landlocked city, but the regulations within the city of San Diego and the surrounding areas don't really allow for big projects to come on because we have the ocean one side and there's only in a certain direction that can go. So there's a lot of demand in terms of valuation. So property values get pushed up, and if you're buying it to thinking that you'll always be at that three and a half, four cap, it's not going to be there. You will outgrow that cap at some point because your value of the property, and you could go in and refi and get your money out. On top of that, this is a destination where there's always a housing shortage.

The number of people that need homes are actually... There's always a demand for if you have the right product for any product in San Diego. Going to the Atlanta market at 6%, six and a half, this year you have a negative rent growth in the last three months. But historically, Atlanta has been top 10, San Diego has been within the top 10. Atlanta has been within the top 10 well increase market. So what that does, one, it puts pressure in terms of, you're obviously raising value of your own asset with the rental increase. Two, with so many immigration coming into the Atlanta market. If you look at the migratory trends, and you look at U-Haul data that shows how people are moving from different parts of US. One of the biggest beneficiary of people moving has been at the Atlanta market.

There's a lot of people coming out from the California, from the New York and from cooler climates that want to move to Atlanta. So when you have that kind of migration coming in, you obviously will always have a demand for homes because everyone has to live. AI or not data or not some things, fundamentals don't change, and that pushes the prices up. So the market fundamentals are there and it's still affordable for companies to come in and set up, establish their offices and things like that. So that is going to push prices up. And your cap rates at some point will, you could probably buy an asset, hold it for the next two, three years and the rates will come down. Even if you look at a forward curve of how the projection is in the next couple years, if the rates will fall, you could always go in and refi it for a much, but for a lower value and obviously get money out of your asset.

Dan: Yeah. As you were describing that the expectation for the future cap rate in San Diego to be three and a half to four is reasonable that will be the case in three to five years, let's call it, in the San Diego market, because of those reasons you talked about it being such a constrained market, the regulation, people wanting to live there. I would say it's probably safe that Atlanta probably has the same expectation. I know we're in the process right now. We haven't successfully done any, but we're looking at and have offers in and contract signed on subdivisions in the Atlanta market right now in the MSA there. We have a friend who's doing this in Texas. In Texas, there are a lot more 10, 15, 20, 30, 40 acre parcels that are flat that have a sewer there and are going to be able to develop you know, 150 units.

No problem. Toll Brothers or Lenar is going to buy that project a lot easier to do that in Texas than in Atlanta because of the, the topography kills the sewers. There's too many hills in Atlanta. So finding a project where you can build 150 houses much harder in Atlanta. So the chances from my perspective of Atlanta becoming much more constrained are much higher than I would expect in Texas for that housing shortage to become superheated like it did in the San Diego market already. So the expectation may be for Atlanta to be a six-and-a-half cap in five years, I might actually not expect that to be the case. I might expect it to go to five and a half or five-and-a-quarter cap rate if this housing shortage situation and the population growth continues on the trajectory that it's been.

But for the sake of my next little comment here, we're going to say they're going to be the same. We expect five years from now, it's going to trade at a six and a half cap at least, and San Diego trades at a three and a half cap. So if I have rental increases that net me $1,000 more at the end of the year in my net operating income, which is like nothing. $1,000 extra in my NOI that gives me $15,000 in additional value in the market, give $15,000 and change in the Atlanta market at the six-and-a-half cap, it gives me $28,000 in value at the three-and-a-half caps. So as I compare the calculation, I can see why an investor who probably isn't syndicating and trying to give 16% to 18% returns I can see why that investor, that wealthy investor will put probably the additional equity into the San Diego building because the rent increases alone, let alone aside from any other management efficiencies and things they could do to improve the value of the property. But the rent increase alone, potentially, is going to give you the same almost double the profitability at that lower cap rate. So I think I answered some of my questions as to why someone would buy the three-and-a-half cap, which until today I'm like how does anyone make any sense of that? But the numbers bear out.

Kranti: Yeah, and at that lower cap rate, you're always going to come out on top if you can afford it. The only caveat being, do you want to buy a four-unit in the Atlanta market, or do you want to buy a single condo in the San Diego market? That's all it comes down to. Your dollar probably your risk mitigation is better when you probably have more spread. But you're right, if you could buy something here 100%, this would be 100% a good market.

Dan: So can you describe some of the details of one of these 2023 closings that you guys have had? Because with the exception of you, not many people have closed much of anything in the commercial space in 2023, and we're sitting here at October 19th.

Kranti: Sure. So we bought two deals. One of them was 100 unit for for about $15 million. The other one is a 400 unit which is over $65 million deal. Both of them were basically heavily discounted from the fact that when they went to initially to market, they were listed at much higher pricing. They were in a contract to sell, but had to fall out because the lending standards changed the valuation basically because the way the interest rates grew, no one actually anticipated it coming out. Coming out of the gate, no one knew it'll go up like 500 basis points within a nine month period. No one saw it, no one predicted it.
Every analyst that had a crystal ball, none of them ever told you. So it proved everyone wrong, which is kind of a way to look at it as heartening, because it tells you that you could be the best out there, but doesn't mean anything because you just don't control. So that's why we always believe in things that we can control is, what do you buy it for? What's your risk mitigation? How well are you capitalized in this environment of having enough reserves to keep continuing to go even without losing your assets? So both those deals were bought at I wouldn't go into the cap rates of the deals because both of them have things that we're going to go in. So for example, the 100 unit, we're building a new clubhouse, we're putting a pool, we're building a new dog park, barbecue, all of that.

We're eminent housing the property to have to basically raise its value. The rents in that particular area, and both are in the Decatur area of the Atlanta market, which is nice up and coming. There's a lot of good stuff happening in that market. Both are below market rents, and part of the reason they're below market rents is because of the amenities on both these apartment complexes. The one that I just said, most people who want to spend money, younger people and all that want the amenities, they want a pool, they want a good gym, they want a dog park, barbecue stations, all of this has the space for it. None of the prior owners actually invested the money to upgrade the standards of living of the residents.

Obviously the floor plans are great, but I think most of them have not exposed, have not put in good countertops like granite counters, really nice high-end finishes that drive a different demographic, drive the rental increases. That's what we're going in and doing. That's why I said you're buying it at a deal that was at $18 million at $180,000 per door. We bought it at like $150,000 per door, which we are buying it much lower than what they went to market for. And now even if we are able to sell it at $180,000, $190,000 in two, three years, we'll still come out on top in terms of where the market will land in the next three years. So... [crosstalk].

Dan: Do you plan to flip out of most of your deals in a three to five year period? What is the hold strategy or sales strategy for you guys?

Kranti: It is a three to five year hold. Our average deal length for our company has been about two and a half between two to two and a half. Our focus is to give our investor money back as quickly as we can. There's a lot of people that don't like it, but we believe that as a responsibility, if we can re return money to our investors, it allows them to be more satisfied. We're mitigating risk. We're all about keeping our investor money safe. If it means that we would get out of a deal with a lower return, we will do it to ensure that we're very conservative in the way we operate.

Dan: Can you give me an example? So the contract fell out on one of these two properties, maybe both. Was it a requirement for more equity? Can you give me an idea maybe on the LTV of the loan that you guys, like what was it that you brought to the table that got this deal closed, whereas that original buyer could not probably at the higher price? I assume.

Kranti: One of the reasons obviously is the higher price. Most of them put the deal under contract, and this takes about 90 days to close most deals. When they go into contract from the point that the cap rates were to the point that they actually got 60 days into a deal, there's probably two times that the rates went up within that time, time period. So once the interest rate go up and most of these loans that multifamily got so hot and the Atlanta market went to a three and a half, four cap for a long time during that period was because of bridge debt. We had bridge lenders basically lending against the sofa rate, which is 15 cents or 20 cents at one point, or 20 basis points, or 30 basis points, or 50 basis points.

Dan: Wow.

Kranti: Then there's massive acceleration with the floating rate, which went to whatever. And then the bridge debt going away slowed down deals. That's where most of these people could not make the numbers work because the rates 100 or one 50 basis point move within a three month, four month period changes the whole deal. So it just didn't justify that cost and the cost had to be lowered. The seller didn't want to lower the cost because they don't see it that way. Sellers take a long time to process. Basically fell out a deal a couple times, fell out of a contract a couple times, and then that's when we picked it up at that lower price, which I think is the price that should have been paid in the first case.

Dan: Yeah, and I've noticed quite a bit of that. The dealers I know of that have closed this year have assembled themselves through the course of two, three or four buyers. Just like the one that you're describing. It's the same a thing. I think that's the price discovery that's happening in the market. The seller wants it to be $18 million, they're sure it's $18 million. No, it's not. So now we'll go to the 16 five buyer and we'll dance with them for 60, 90 days and then they bail and now we're at 15 and, and eventually get to the one who is aware of the lending environment that exists today. And what I mean by that, I get a call the other day friend of mine, we were going to go in on this deal and it's 450,000 square feet and I think it was a $9 million purchase, and it needs about $4 million altogether. So we're talking about a $13 million project that once it's done, by the time you add those of course back in, get it rented three to five years, that building should be worth somewhere the $28 million to $32 million range.

Now this friend has closed he exited $70 million worth of commercial real estate in the last maybe 18 months. He calls and says, "I can't get the loan". Said, what do you mean you can't get the loan? "Well, all the lenders I've used with all the other projects and it's these terms, and we thought we'd put $4 million down and get the loan and I can't get it. I'm getting turned down left and right". And so if a guy who closed successfully out of $70 million in projects in the last 18 months, and he just didn't happen to be aware of the change in that lending environment, maybe he hasn't shopped the deal in the last 90 or 120 days, maybe things have significantly changed even further in the last 60 or 90 days, which they are.

The Signature Banks, Silicon Valley Bank, these bank failures, there's definitely some tightening up the capital markets and the credit are changing day by day. And I think you have very experienced people who have been successful, have track records and have net worth now who are shocked when they get their term sheet or when they don't even get a term sheet from their lenders. Are you doing anything to stay on top of the lending environment right now, let's say in the last 60 days or so, you and the team? Is there any action steps that you guys are taking? And maybe you could extrapolate that to something that people could do that even if it were on a smaller scale for someone buying two or three or four units right now as we speak?

Kranti: The lending environment especially has become very tough. We luckily have pretty much fixed rate loans. We have one loan with the rate cap on until next year, so we're paying about 6% on that too until mid next year. But now we're talking to lenders on a couple of our properties to refinance. What we're learning is the standards have changed. Lenders in the past never went into details. Most of them looked at occupancies, most of them looked at what's your occupancy? Historically, they've looked at how much is your potential rents, all of that stuff. Now they're looking at how much is a property bringing in, what is your delinquency rates? You're in the Atlanta market, evictions have slowed down significantly compared to most other markets, so people are not getting e evicted.

People have learned that if you don't pay your rent, you could still stay for like couple years because the court systems are backed up. There's a lot of people that are exploiting that. Lenders are now looking at multiple avenues to basically say we're going to give you this debt, but we need more money in equity that you need to put up. So it's no longer a loan that we used to get. We would get 80% loan to cost, 70% loan to value, whatever those 75%. Now it's more like 65%, you drop it at 60% loan, or sometimes it's 55%, 45%. What that does is because your appraised value of the assets gone down not high, you are not actually getting a lot of money. If you're in the market and most of the multi-family stuff works where you actually hold it for a year and a half or two, your value goes up, you go in, you pull out money, return money, but 30% your investors refi it.

Obviously your calculation start looking good, whatever be the case, all of those standards have changed and they continue to change. If there's nothing that's causes a recession, this could be one of the reason that would causes a recession because your lending standards are so stringent, I think that'll hold good for single family and multi-family because lenders are really tightening. Two years ago then the environment within banks were like, they were inviting us. They were like, "come on, we'll give you whatever you want" and now, that's gone. Actually, all of them have gone to floating rate in the single family arm loans. Part of the reason 2008 happened was because of those floating rate loans.

But I think now is the market time, if you ever are buying a house, you probably buy it with a floating rate loan, not a fixed rate because this is the highest than it can get. You never know they're talking about doing more increases if needed. But to answer your question, if you are in this market, either to buy or to refinance, I think you have to understand that whatever appraised value you're thinking about getting, you're not going to get that. Appraisers are having to pull back because of the volume of transactions are low. And when lenders have actually lowered LTVs or LTCs to a significantly much lower number, they are expecting to see more equity into deals they're expecting. To your point, even if you have a history of doing well, there's a lot more scrutinization from a lender standpoint where the underwriters are asking a lot more. We've been asked our AR reports, we never been asked our AR reports. They're even asking us, "tell us how many units are an eviction and show us which ones those are", to that level, and there's onsite inspection.
We're never used to all of this.

Dan: Yeah, and some of the deals that I hear falling apart, the lender the day before closing on one of the examples same thing. Experienced guy multimillionaire, he's buying himself. He's not a syndicator, he's all set to go to closing at 70% loans cost or loan to value. I don't recall which. And they're like, well, we need 60% now.

Kranti: Yeah.

Dan: And they ended up settling on 65%. But this is a guy with eight, 10 loans each at $2million to $5 million dollars with the same lender who's never going bad. I wonder if our deal that I referenced the $9 million deal. I'm not sure on this one because I haven't gotten the follow up call and I'm not sure where we're actually at in this one, but I wonder if we're going to be a buyer, A who falls out at nine and this thing has to trade at seven because somebody has to put three and a half to $4 million, they got to put 50% down to make it work.

Kranti: Yeah.

Dan: With the new lending environment. I think it is what it is. That's where we're seeing this new paradigm here. [crosstalk]. Go ahead.

Kranti: I apologize. I also got a call from a bank saying, "I think we're going to have to look at making this". Most of our loans are a non-recourse, and what the other thing we're seeing is at least making it partially portion of the loan as a recourse loan. Which shows that they're really concerned about some of these assets going bad. The last thing that a bank ever wants is be left with an asset that they have to deal with. So they're doing everything in their power and capacity to get away from that.

Dan: Yeah. I think it's important for all of us to understand this is the lending freeze. This is the capital freeze. In 2008, this happened much faster. When the first bank imploded, I think it was Goldman. When Goldman imploded, it was over. It was like someone turned off the switch and the lending stopped mid-construction. So you had developments where there was foundations in the ground and that was it, there was no construction draw coming and people were immediately shut off. I think it's happening a little slower. We're probably nine months into a slowdown and it's like they're turning it off with a dimmer switch this time versus a light switch in 2008 is how it felt when I lived through that. But that is the source of the driving down at the prices. So where you're building for $15 million, if the capital was available, maybe buyer a would have simply closed the deal at $18 million and the value would've been there. Now there's a new comparable sale that you guys just set at the $15 million after two or three buyers shut down. So you multiply this across $5,000, $10,000 commercial transactions that might go down this year in the United States. Now you're going to see the discounting and the price discovery, which will be the new normal come 2024, 2025. And then maybe we'll see our creativity and the lenders come back and save the day.

Kranti: We definitely need interest rate cuts and QT that's going on quantitative tightening to stop at some point, which is going to trigger loser lending standards. But I think for now, at least for the next six, nine months, I think it's going to be tight.

Dan: Yeah, I think you're right about that. I know we're getting late in the hour here. So I want to wrap up with a couple of closing questions if we could. Are there one or two books that you have read throughout your career or recommended to other people that have been transformational?

Kranti: I've read quite a few books, I think one of the few books, obviously, your listeners probably know this, everyone talks about Rich Dad, Poor Dad all the time. It's highly recommended. But a book that I particularly like is Good To Great, and in the same series, there's another one called Build to Last. But I think most fundamentally, if you want to do a side hustle, a business, something that makes your additional income or move away from your job, I think you need the right habits. I think Atomic Habits is one thing that I told my 13-year-old daughter to read. I think that's if there's anything that would really change people's mindsets or how they go about, I think fundamentally the way that they do things has to change. And I think that book is really good.

Dan: Nice. So for the ground Jewel wisdom, I want to ask you, if you could go back to the day before you closed on that office building that you guys were occupying. However many years ago back that was, and you could share with yourself the crown jewel of wisdom with everything you've learned since then, what would that be Kranti?

Kranti: What I've learned over the years is, with real estate, especially when you talk about real estate, really knowing your markets is important. You talked about having three different offices and be having your pulse, and most people don't do that. It's very highly localized. You could go to a street over and that wouldn't be the same thing as your street. So if you don't understand or know your markets don't go and try to do business in them just because San Diego is expensive and Atlanta is cheaper, and I'm going to go flip houses or buy houses. That's a common mistake most people do. That's something that I would, knowing what I know today, I'd probably learn more about a market, more about the area, more about the street that I'm buying on than anything ever.

The other thing that most people think about real estate is it's not what you see, it's what's on the spreadsheet. The shiny object syndrome is probably the the easiest thing for you to get, look at something and think, this looks great, I'm going to buy this, no. It's what is the spreadsheet telling you? Have you taken time to underwrite something and really understand it and analyze it? That's what's more important in real estate. Could be different in life, but if you can really understand those two, I think you'll always be successful. I was probably not this smart when I bought the office building, it was very emotional. I'm like, I like it, I'm going to buy it and I got lucky, honestly. But if I'd now known this, I probably would've bought three or four more buildings, not just stopped at one. But I didn't know and that's what I think.

Dan: Yeah, that's fantastic. What's on the spreadsheet and we've closed a lot of deals. We've closed what to us were some very large deals. I think a lot of times we would love to think that was our skill and that was our superior negotiation and that was our market selection and these kind of things. But you hit the nail on the head, it was like, I got lucky on that one. I think a lot of times people hear stories. Especially early in the real estate industry, you'll hear stories from people, "the uncle sold this lot, he bought for $10 for $500,000". These kind of things where people did get lucky and they just happened to buy the right thing, hang onto it, and the world changed over 45 years while the uncle held that land. So the differentiation between building a business in real estate and being an intelligent investor there and knowing what's on the spreadsheet versus, you can actually still buy shiny objects and get lucky sometimes and make money, but your propensity to lose a lot of money in that situation is going to be much higher than running a business of intelligent investing. Kranti, do you want to give a plug for your business, your podcast? Maybe where listeners could get some more information about you?

Kranti: Sure. You can always visit my website. It's krantiponnam.com. I'm on Instagram, Facebook, LinkedIn, any of those. I'd love to connect and talk to anyone. Our Four Oaks Capital.com is the name of our syndicated real estate company. If you want to know more about our deals and learn more about what we do, how we do things, please hit us up and we'd absolutely love to talk and educate people.

Dan: Cool. My final question Kranti, what is the kindest thing anyone has ever done for you?

Kranti: I think I'm a product of a lot of people's good wishes, help and things that people have done for me. I think the kindest thing and has left me a lasting impact is, one of my first things when I started my business as I was struggling, I was doing all the marketing, all the still selling, and all of the stuff. One of my oldest uncles, he saw my struggle and I was struggling back then very in a tight spot, hardly making things work, hardly being able to make my expenses. He went out of his way and actually reached out to one of his old colleagues who was a VP for a big company and said, "this kid is working hard. I think you should talk to him at least to give him advice on what and how to do things".

That one phone conversation with that gentleman who basically gave me direction, had me pivot in the way I was doing things and had me pivot to a different technology, changed my life. I think sometimes it's just that one conversation that you need, and I can never thank him enough about what he did at least. Most people listen to other people's problems and say, I'm sorry about it, I hope things go well and I'll keep you in my prayers. They don't do anything about it. Most people want action. Taking that on and actually taking that initiative to help is wonderful and I believe in paying it forward too.

Dan: Yeah, that's very cool. You're the kind of guy that did something with the advice. Because there's a lot of people who get some really solid advice, never take the action, and faith without works is dead. So very cool. Hey, I got a couple pages of notes. I'm sure we'll have to do a future follow up podcast maybe in the next year or so and see where we both land in the world. But Kranti, I really appreciate you coming on the show and taking out your time. It's been a blast.

Kranti: Thank you very much, and I really hope your listeners get some valuable information out of it. Always willing to add value.

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