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Introduction: Welcome to the REI Diamonds Show with Dan Breslin. Your source for real estate investment jewels of wisdom.

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Dan: Mr. Rafik Moore, welcome to the REI Diamonds Show.

Rafik Moore: Thank you for having me, Dan.

Dan: Yes, for sure. Whereabouts are you recording from? We just happened location stamp because we get a lot of guests around the country, each person as they kind of come on.

Rafik: I'm in Beavercreek, Ohio, at one of our projects. It's a 200,000 square-foot Small Bay Flex industrial facility on 27-acres. We were remodelling it and stabilizing at the moment with my partner, Saul.

Dan: Nice. Did you drive or fly there?

Rafik: I flew here, and I fly here almost monthly to visit this project. We have another project, a mall, in Piqua, Ohio, which is on the north side of town.

Dan: Nice. Are you licensed to fly that plane?

Rafik: I'm a pilot in training.

Dan: Okay.

Rafik: I don't have the time to really complete my ground school, but I sort of mentally decided that even if I have a license, I'll always have my pilots fly me because I need thinking time. When you fly, you got to be all on. There are so many things you got to keep track of and be careful. Casual flying is one thing but every time I fly here or to Cleveland or to any other destination, I'm always in preparation for a meeting to meet with the investor, to meet with the tenant or a seller. I think a lot, so I just don't want to risk it.

Dan: Yes, smart. I like that. Why don't we start with a little bit of a back story, right? How did you get in real estate? How did your real estate career developed to the point where we're taking down and running 200,000 plus square-foot dead boxes and bringing them back to life?

Rafik: I started with a job as a credit analyst at a bank. So, my approach into this industry came from the finance or ability to borrow money to buy real estate. As an underwriter, I worked for two years, learned a lot about credit analysis and what banks to look at when they want to borrow your money. It was a very critical experience in my understanding of how to get banks to lend me money later. After being a credit analyst, I became a sales guy. At first, I was an account executive, sales guy for the mortgages, and then ultimately, became a mortgage broker in 2003.

From 2003 until 2008, I was a mortgage broker. We had about four shops and over 100 people, and that basically was my full-time job.

But my part-time job was flipping houses and starting from one house duplex after that and that flopped on a couple of first houses. It's so hard to believe that starting with that and to sort of fast forward to what we're doing today, which is four and a half million square-feet of real estate all over the country it's just mind-boggling and very, very exciting and I guess, humbling. I have been very blessed to have met a lot of friends along the way. I'm all about building long-term relationships with long-term people. But yes, after flipping houses... Oh, by the way, when things collapsed, I started flipping houses professionally. We do 50 to 60 houses a year for about seven to 10 years and in 2012 and parallel, I bought my first commercial warehouse building which was a life-changing event. On that first deal, we made a million dollars, me and my investors. And we continued flipping houses, but commercial real estate became a thing for me, first thing. So, my partner continued running flipping business while I got into commercial full time.

Dan: Nice. It's interesting. I love the backstory section of your career and you've probably shared this on stage where I've heard you speak before about being a credit analyst, but I connect the dots today and it's like, wow. Here you are, looking over to loan packages and sort of seeing the back-end financing engine. That is the chassis of the real estate business without mortgages and securitization of values would not be where they're at today if everybody simply had to pay cash for their home and cash for their commercial property and there was no financing structure. It's really a balloon of values that we all enjoy those of us in the business at this point. So, it's interesting to hear that component of your story as maybe like one of the early seeds that started to kind of...

Rafik: If you think about what we do professionally in our business, it's really a convolution of three different industries in one. That is a finance industry when you get people to invest, and you give them a return, and real estate industry where you buy and sell real estate and try to create value and a construction business where you have to retrofit things, build things, and remodel things. And so, you have to be good at all three of them. My superpower is always finance and real estate, being a sales guy or selling properties or finding properties was the strength of Saul's. And on these projects, we have a really good construction company partner. He builds apartment buildings. He builds assisted living facilities. We're very lucky to have him. So, we have a really three avengers running the show with our superpowers being separate and different from each other's.

Dan: Yes. I say it a lot. I've said there's three, there's four components. I think I landed on three recently that I start to kind of label myself. We have the money, we have the deal, and then we have the operations because operations to me is partially, construction. You have to be good at that. You have to be able to build the project out. But operations is also collecting the CAM charges.

Rafik: Right.

Dan: Collecting the rent, negotiating the leases. And the operations is a long-term game. Maybe that's a three to five, or three to seven, or it could be a lifetime on someone's deal. If I'm taking those same three components and I'm flipping houses, I have the money guy, the private lender and that person might bring something very valuable to the deal. I have the person who brings the deal to the table and then I would call it operations again, although it's probably 99% construction when you're flipping a house. And if you're going to buy and hold even small single family rental properties or little apartments, again, you'll find that same thing. I like that you call it like finance because I always say it's the money and it's usually a text message to a lender and 350 grand shows up and it's like real simple. There's no credit analyst thing going on in my business. So, who's going to throw in the 250? [crosstalk] All right, I'll do it.

Rafik: When you establish a brand like yours and everybody knows you are as good as the United States government or better, they always want to give you money. So, that's where you've done a really good job of creating such an amazing business. I literally look up to you.

Dan: I appreciate that, and I would say exactly the same thing about what you guys have done. For sure, very powerful model. Hopefully, we can get into some of those details here on the show. Rafik, I don't know. What was it? Two or three years ago, did you have like quite a few exits? I mean, I'm out on a limb here because it seems like you and Saul started buying these malls maybe three years ago and it seems like it-

Rafik: Actually, it seems like a long time but [crosstalk] we've been buying buildings. I met Saul in 2019 on a Commercial Academy Mastermind, and he was house flipping. He just got into commercial real estate. So, we've done a lot of industrial assets before this, but our actual first mall, original mall that we purchased in Piqua which is a suburb of Dayton, Ohio was in April of 2023. Actually, April 23rd to be exact of 2023. So, exactly a year and two months...

Dan: Two months, not even.

Rafik: Yes. And I was just there with my partners and it's like, "Well, I don't think we've done enough." I said, "No, you guys had more than a few, like 75% occupied. Everything is converted into Small Bay Industrials. You guys knocked it out of the park." And Saul leased it also. It's a great thing.

Dan: Can we pull the thread on that deal? Piqua is a dead mall. Everyone in the world knows about that mall no matter what neighborhood you live in in the United States. And the big question was, what are you ever going to do with a dead mall? And people are tearing them down and building new towers, replacing it with residential. You guys did something different and kept the existing structures there. Would you mind giving us the bullet point detail on the Piqua property?

Rafik: It all stemmed from Charlie Munger's quote: "For every hammer, every problem is a nail." So, for us, every box we'll look at is an industrial box opportunity. It started with this business buying industrial assets 10 years ago and industrial assets were not as hot as they were today. And good luck finding anything for 30 to 40 bucks a foot. Everything trades at 100 to 150 and Miami, they're going for 200. It's crazy. So, it became a very, very sought after type of product because of the evolution of our consumer spending, because of e-commerce effect, and other things.

So, we buy a big box, industrial box, and we chop it down to small base. And we buy it for 30... this is like five years ago or six years ago. We'd buy it for 30 bucks a foot. We spend 20 and the value of the box goes up and of course, with the appreciation and value increase, we made a lot of money buying these buildings. And then, the supply dried up. Do you want to compete with 15 other guys to buy a building at 100 bucks a foot and you buy it at six cap? So, we said, "Forget it. We're not going to do this." In finding the mall, this particular mall, we thought if the zoning is approved by the city and if there's no restrictions from reciprocal easement agreements from the other anchors in the building, we could probably convert it for about $20 a foot, which actually end up costing us about 30.

There are little complexities with these malls. You've got to trash them out, take out the ceiling tiles and raise it, sprinkler systems, etc. However, in this particular property, out of 511,000 square-foot facility, we had a 90,000 square-foot Sears[?], and we had a 60,000 square-foot Elder-Beerman box. We took it all out. We rented it all. We demoed it. We built some hallways and common area dock and common area drive-ins. And I'm proud to announce that we are actually full in those boxes and we're trying to refinance the property right now to pay off our investors and pay off our first mortgage.

And if you pick it up on... you can actually Google it on piquacenter.com and there's a very nice plan showing our retail area, our entertainment area and our industrial area. Industrial area is all in red or salmon color. But we've been very lucky to have bought it for $3 million. So, finding the right numbers is really key because we bought it for $6 a foot. 70-acres, 511,000 with facility, but it was losing $30,000 a month. And Saul and I were in Beavercreek at his house skiing when last winter in February, ahead of my contract and I was about to bounce. I was like, "I don't know. It's just I have such a good life. I have a lot of properties. Life's good. This mall has a $30,000 negative cash flow and then some, everybody's leaving. I think I'm buying myself a problem." Saul is like, "Yes. Don't buy it. This is not worth it. Let's just stick to what we know."

And then, I remember Jeff Bezos' regret minimization speech. He says, "When you're 80 years old and you're sitting there on a porch thinking about your life, what things would you regret?" And to me, I was like, "If I don't do this deal, I'll regret it because I don't think an opportunity like that will show up ever again where the city approved the zoning changes prior to closing, where the price was $6 a foot and where a local construction company is willing to take 60,000 square-foot space and sign a lease day one." So, it was basically a covered call for us. We limited our upside by giving the partnership to our local partner, but we basically minimized any downside.

Fast forward to today, this has completely changed our business model. We now have three malls and we're shopping for more malls. I mean, we need to really slow down a little bit maybe complete one or two and refinance first, but we were very eager to get them done because every time we finish a unit, we have multiple people interested in renting them from us.

Dan: So, Piqua Center, for anybody who's doing audio only is spelled P-I-Q-U-A. So, Piqua Center, P-I-Q-U-A. If you guys want to go check that out, a lot of very interesting photos and details about that project there. Let's add a little bit more color. 511,000 square-feet. And what is the population in like five to 10-mile radius here?

Rafik: So, this is a suburb of Dayton, Ohio. Piqua by itself has about 30,000 people. I think in a five-mile radius, we have close to 55,000 and 10-mile radius is much higher because now, we are encroaching on Dayton.

Dan: Okay.

Rafik: [inaudible] from about five-mile radius. What we've learned from Piqua is that population is key to reviving these malls because you need bodies, you need people who need the space. The next one we bought in Mansfield, Ohio and Mansfield, Ohio has three times the population. It's a 100,000-person town. And when you go into the parking lot, you can see, there are so many more cars. So, this particular second mall we bought was not as dead as the first one. It's a slightly smaller mall, but it was generating $400,000 of NOI day one. So, when we bought it for $4 million, we actually picked it up...

Dan: Wow.

Rafik: ...for end cap and in place income with a 60% vacancy. And we are now in the middle of demoing the big box, just Macy's, and we're going to punch in garage doors and drive-ins and whatnot. So, it's going to be a pretty interesting evolution as well. We're excited about that one.

Dan: Back on the Piqua deal. How did you guys go about identifying this construction partner or tenant? Were they introduced? Was there a negotiation? Did you have a pre-existing relationship? Because it sounds like a critical piece to making that thing palatable on the front end in terms of risk for you.

Rafik: You can call it serendipity...

Dan: Okay.

Rafik: ...with [inaudible]. I flew in and I met with the city official at the onset of this deal and I just told them straight up how we operate. We are all about taking care of tenants. We're all about repairing the properties. We are all about paying taxes, which the prior owner did none of that. He didn't pay taxes for five years. The thing was leaking. The roof was messed up. The HVAC didn't work and when the AC went down, a bunch of tenants left. It was basically a death spiral for them all. This particular individual, Chris, with the city of Piqua was instrumental in creating that alliance. And he says, "Rafik, some other people are interested in buying the mall, but they're scared to do it on their own because it's so complex. You might want to meet with them."

So, we got together, we met with them, and they turned out to be some amazing people, they're [inaudible] hard-working people working in Piqua, Troy and Dayton area. They build apartments. They have similar industrial assets. So, they get it, but it was a daunting project for them as well. So, we sort of teamed up on it. Saul and I doing marketing and finance and them doing management and construction. And I think the value was uncovered in the partnership. I don't think we could have done it without them as successfully. I mean, it would have been longer. It's a massive project, so you need a lot of crews tearing up spaces. And they have done an excellent job in such a short period of time. We were very lucky to have them as our partners.

Dan: So, a lot of my audience is house flipping, doing five, 10, 15, 20 deals years. That's a machine. I think for a lot of people, how many bought, right? And you got maybe like five, six, eight human beings total showing up at a flip. And not all at the same time either, right? What is the number of people that were probably working on this mall at any given time over the last year or so?

Rafik: So, there's tradespeople, there's HVAC, plumbing, electric, and there are sprinkler guys. I don't even know when they show up and leave but I'm sure every time they came up, there was three to five people there. But I know when the demo started, I remember seeing close to 30 people just hacking at it with saws and whatever. It was a like a party. It's a demo party. I've taken down Sears, sheetrock, and taking down the ceilings and lights, etc. And that does not include layered administration and payroll and HR. I mean, these guys are a fully integrated construction company called RCS construction. And so, they are pretty dialled in and organized. We are not as big of a company as them. Saul and I, we just own real estate, management companies. We probably manage 700 tenants. So, we don't have as much staff as them, but we definitely got lucky with the partnership.

Dan: Yes, it's on another scale. That's kind of the picture there.

Rafik: That's what you need for these types of projects. You need some big kahunas[?] and big executors to be able to get in. Otherwise, if you have five guys working out, it'll take you 10 years.

Dan: Yes, exactly. I have a 30,000 square-foot warehouse and we're trying to reside and throw a new, I don't know, 45% of the roof is a steel roof and we're trying to get that done. And the contractors we found in the area, they show up and, "Oh, no. You need like a much bigger crew. This is far beyond what I can." So, we're just going to end up selling that thing as is and getting out of it. Not in a great area, but to find the right construction partner at this scale seems like a huge challenge for me. But you put yourself in that position to win. And I see a lot of people who win... I like to say you can't underwrite luck into the deal. You can't buy expecting to get lucky, expecting the rents and the values of houses or real estate to double again like they did maybe in the last four or five years.

So, you underwrite conservatively, but hopefully, I'm looking for some luck on the deals. I'm looking for the multiple offer situation if I'm selling a property. I mean, I'm hoping. I'm expecting things. If I'm in your shoes, like the construction partner to be introduced by Chris that ends up being a pivotal piece in making the deal work. But you can't build your business on luck. You have to build your business on sober numbers and analyzing the risk and I think the decision to buy at $3 million is where you sort of really capped that risk in the first place.

Rafik: Well, the other thing is I think who you are determines who you team up with. People tend to gravitate towards the kind of people they are. And so, when I noticed how they operate and their high integrity approach and demeanor, I was very pleased. Partnering up with somebody you've never met before on a large asset is a lot of risk. So, we got lucky with these particular folks because they are very honorable and hardworking, and they get stuff done.

Dan: Would you mind talking through the leasing strategy or system a little bit? I know that's not exactly your lane. But I think to take on an asset of this size is only possible with that strategy in place.

Rafik: What problem are we trying to solve here? The problem we're trying to solve is to fill a dying mall, right? And dying malls were built in the '90s, '80s all over the country, but there is a certain functional obsolescence because the big retailers are who drew people into the interior corridor shopping are dead now or dying. Sears, for example, is out of business. JCPenney is struggling. Macy's is struggling, sounds like. Unless they create some sort of an e-commerce present, all these retailers are going to wither away. Now, these malls are sitting there with dead anchors and there's no traffic. And so, every small retailer is basically struggling and holding on for their life because there's no traffic. And so, they exit, and they pay $12 to $14 across the street as opposed to paying $5 in our space.

So, what we've done is we shrunk the retail space by almost 50 to 70%. It's not a retail asset anymore. We call it a business incubator tech center. We call it a business commerce, a business center. So, what we do is we take out the big boxes, we build the hallways so that there is a dock. Every small unit will have dock and drive and accessibility. That way you can haul your product in and out of the place. You can do printing in there, you can repair vehicles, you can manufacture stuff. The key is zoning approvals.

Now, the other things we do is put in the breweries. We want to sexy it up. We invest money in these new restaurants. Our approach for marking is very simple. We want to be very responsive. So, we want to be posted everywhere. The entire town needs to know we're open for business under new management. So, a lot of capital goes into creating that awareness. Number two, we always come in at about 20% below competition, no matter what the competition is at. If the competition is at $10, we go at eight. If they're at eight dollars, we go at six. And when you have a responsive person in charge of the phone, and you have a good price, hopefully, you'll draw up some leads. Then we have a ton of money in our reserves for construction for rehab that we are able to basically invest in the businesses. So, whether it's building walls, finishing floors a certain way, or installing light fixtures, putting a lot of power, maybe sometimes, we invest a little bit in their equipment to help them.

So, we basically draw in a lot of entrepreneurial energy back into the place and become a center of gravity because of our TI dollars, because of our pricing, because of our responsive marketing. And lastly, for those who are our tenants, we have a raving fan tenant culture. We want to make sure every person in our organization knows and treats these tenants who were battered by the prior ownership with lack of AC and roof leaks and the property going backwards. We want to retain them. We want them to say, "Look, wait a little more. Wait another six to 12 months, the traffic will come back." And so, we put in a bouncy house, a trampoline park that's supposed to bring 200 visitors per year. We are putting in a pickleball court, we're redeveloping the entire food court area to make it into a fun, vivacious place to dine. We are putting axe-throwing places, breweries, things that are sexy, but we don't charge a higher price for their occupancy in our spaces. And that's basically our formula. If you think about it, it's not very sophisticated. It's very simple. Cheap and functional space in the center of the city.

Dan: Yes. It sounds like for my end, we have the product in a sense, first, you're doing marketing and awareness to try to drive traffic. That's part of the magic, right?

Rafik: Yes.

Dan: The other part is the product in a sense is like your square foot of space for I think you said five or six bucks a foot if we're talking about Piqua.

Rafik: Well, the dial then, we have 35 bucks, 30 bucks a foot.

Dan: Is your cost?

Rafik: Our cost.

Dan: Right.

Rafik: So, our [inaudible] cost is 14 to 15%.

Dan: Okay.

Rafik: So, yes.

Dan: Yes. So,14%, 15% yield on cost but for $5, a tenant is buying a foot of space. But normally, that would buy like a gutted empty space and the landlords doesn't care in some like hundred-year-old building with asbestos still flaking off of the ceiling into their space. That's what five bucks buys.

Rafik: Or it's on the outskirts of the city in a warehouse building, but this is a retail area.

Dan: Correct.

Rafik: So, we have an MMA gym. An MMA gym would not have been able to come into this thing before we came in because it was too expensive, and the landlord wouldn't spend the money. And we spent 35 bucks a foot to get them in there and they draw a lot of traffic. We had our own UFC fight in the mall.

Dan: Wow.

Rafik: A lady runs it. I forgot. It's a lady, a UFC fighter that runs a gym. She's a rockstar.

Dan: Wow. So, you have this premium product that you guys are leasing five bucks a foot as premium square footage, if you will. Certainly, at that price, it's probably worth in the eyes of the tenant right now. Eventually, they'll get there, I'm sure. The way the leases are written.

Rafik: At the end of the day, well, that's right. [inaudible] to get into our building. We want to keep them. We want to make them happy. It's a partnership. We partner up with our tenants and we are all invested in their success.

Dan: And I think a lot of owners are not necessarily going to have that kind of care towards their tenants. I think a lot of the attitude of landlords is like tenant be damned, charge the highest price rent, not giving you any kind of repairs, here's the bill for the CAM charges, pay it. It's not the tenant-centric focus that sounds like your team has.

Rafik: I think there's different businesses and it's a different business strategy. The biggest difference between them guys and us is their basis is so high. They bought these things really high. I mean, tendency for you to own real estate. What do you want? Every year, you want your rental rates to go up and you want your mortgage to go down, right? They are called cost of capital except your rent's not going up. And I was like, "Why don't you drop the price, Mr. Seller?" He's like, "If I drop the price on this guy, everybody else will demand a lower price. So, no. I'm not going to do it."

So, about the building in Mansfield, our pretzel guy pays $8,000 a month and he's all trying to get out of there. We called him right away. We bought the building. We said, "Look, Mr. Pretzel guy. How much would you like to pay?" He's like, "No, I can't make it work. I'm out of here." Like, "No. We'll give you a five-year lease. What would you like?" He's like, "$3,000." "Done, 3000. Please stay." And by the way, he's like, "Can you repair my floors?" "No problem. We'll fix your floors. We'll do whatever. Please, don't leave." So, he stayed. Now, he's winning $5,000 a month and we're winning because we didn't lose a tenant.

If our sellers were... and [inaudible] is a large institutional owner. They don't have time to talk to each individual tenant. And the way we built our model with our asset managers and general managers is I want them to have a relationship with each tenant and I want to bonus them for any kind of a tenant appreciation. I said, "Look, any tenant needs something, up to $250, you can give them a gift or whatever to win their graces. Above that, if there's any conflict, it comes to me." And we want to build a business where every person in our company has that tenant-centric approach because I think that's the only way to survive in this economy with all these competing spaces around.

Dan: One of the other things that I noticed from the outside is when I do the math. I don't know, spaces are 1500 square-foot, 2500 square-foot, and I do the math on the total lease and then I do the math on what a commission might be for the listing broker who's going to run that 3,000 square-foot lease. And it's not a lot of money. And so, what I know has happened to a lot of people who became successful in the commercial leasing space is maybe they do start with some of the smaller stuff. But once they figure out that they can lease a 30,000 or 25,000 square-foot Planet Fitness space and make a substantially larger sum by working on that deal, they're no longer incentivised to work on the smaller deals.

And I think at the institutional level, you're going to see a lot of that kind of stuff happening too. So, then I'm going to have the conversation with the pretzel guy or be able to diligently lease up the space the way that you guys are. Is there someone on your team or a team of salespeople kind of running this leasing machine? Because there's such a negative incentive if you will for the ordinary brokerage community to want to step in and start finding the tenant who's going to... I don't know, maybe the MMA gym is big enough to attract it, but if we're starting to talk about maybe smaller tenants that are going to fill in all the holes in here, that could be like an impossible challenge to throw that on [inaudible] and let the brokerage community bring your tenants.

Rafik: To that end, we are working to create a system that is perfect in a way where we still sign a listing agreement with the local brokerage, and we asked them to work with larger national tenants perhaps and draw them in into our malls if they have those relationships. Because we're not retail brokers, we just own real estate. But we personally as a team and my partner, Saul Zenkevicius, on our team runs the entire marketing platform for us. I mean, he is a next-level genius, and he created a bunch of funnels and systems, and VAs. Responsiveness is the key. Being able to turn around or lease and sign it quickly is a key because time kills deals. But what we do is we say like this, "Mr. Broker, don't worry about the small deals. We will work on the small deals ourselves. Anything over 5,000 square feet, you work on either with us or on your own. If we find a lead for a large tenant, we'll loop you in and we'll kind of have you work it, and we'll pay a little commission."

Because the upside on these buildings is so high, we're talking 10, 15, 20 million dollars of site. We're okay to pay a brokerage firm that's local, $500,000 to $600,000 to bring us the tenants. We try to be generous because all we're trying to do is build long-term relationships with long-term people. And the top brokers, they're expensive. And we want to make sure that they're taken care of. Actually, I'm meeting with one today at 3:30 over here.

Dan: I'm amazed as I learn more of the details of larger scale development projects and how they sell out, of how much ownership participation there is on the front end in handling the leasing of self-storage building brand new development. When they built the 450 condos in the condo that I live in Chicago, they were running TV commercials and radio ads to sell units. This is like way out of left field to me that they're running TV ads to sell condo units. I mean, this is back in I guess, in the '70s to mid '70s, so they didn't really have the MLS and the kind of systems that we did.

But how much more active advertising is involved when a developer is building at scale and maybe scale starts at 50,000 square-feet and up if we're talking about storage units. Maybe scale in these industrial spaces, 100,000 and 150,000 square feet and up. But it's interesting to hear you guys are also running a proactive front-end marketing campaign to accomplish those small 5,000 square-foot and less leases.

Rafik: Well, that's the only way to survive for us because don't forget, Dan, when you come into this property, everybody in that little community made a decision that it's a dead mall. So, when you come in limping without like a glaring message, nobody will even respond to it because they're used to for last 10 years to bad news. Three stars, two-star reviews, leaking roofs, and AC is not working. I will never in a million years go to that mall. It's a dead mall. "No, it's not a dead mall. We are working on it. It's going to be different." "We don't believe you." Nobody believed us until we... that's why Saul does videos, and he shows it on Facebook and YouTube and says, "Look, here's what's going on." Once people see the excitement and when we put the bouncy house in there and a bunch of parents came, and they started seeing the changes that are happening, all of a sudden, it's almost like revitalization has started. Like the mall is waking up almost.

Dan: Very cool. We've talked a lot about Saul and some of the listeners who have been around a while remember Saul. I think Saul came on in the early days when we were, I think, we may have been doing some flips together at the time and then Saul came back on, I believe, and did a second episode with us here on the show. And we were kind of talking about the transition into the industrial stuff. But the size of the assets was maybe 10, 20, 30 thousand square-feet. I don't think he even had Milwaukee Tech on the table at that point yet. So, we're going to have Saul on here again to give some more color commentary. I think it'll be an interesting follow-up for the listeners to kind of look out for that episode. I will make sure I get Saul in the queue here soon so that we can kind of have him share on these kinds of same stories that you're telling us now.

Rafik: He has a lot of jewels of wisdom to share.

Dan: Oh, yes. Very cool. What do you think are the biggest challenges right now facing your business model? So, we turn around a mall. We have $30 in TI expenses now on the table. So, that's a real risk. $30 to $35 is the real risk on the table and it's producing 14 or 15% yield on cost. What could go wrong in Piqua that might cause some issues for you to hold this thing, let's say, indefinitely?

Rafik: So, as you know, I get on stage in these Masterminds and talk about these deals and everybody's saying, "Rafik, you're crazy. Who's going to buy this thing? Your IRR is not just cash flow. It's appreciation sale." And it's actually pretty depressing for me to hear how everybody is turning me down. But most of our investors are smaller investors. They've never done anything like this. So, I reached out to Professor Jonathan Morris who runs REIT Academy and I said, "Do you know what? I'm going to go ahead and set up a REIT. We are going to market to investors." These things are cash cows. They make a lot of money and all we need to do is have a little bit of staying power.

If we have blips like COVID-19 and have tremendous amount of reserves, we project provided that properties are full at $5 triple net, it's going to generate two and a half million dollars of NOI. If I were to sell it today to the next guy, these malls will probably trade at about 10 cap because they're massive and there's not a lot of buyers, so 25 million. But if my debts cost is 6% or six and a quarter which right now, I can actually get six and a quarter with insurance companies. The prices have come down. And we have 400 basis point delta between my cost of capital and our cap on resale, we have a ridiculously well cash flow in property. And I think we can deliver to our investors something to the tune of 10 to 12% cash-on-cash, not taken to consideration the IRR from the bump in sale.

Long story short, what we're going to do, Saul and I and other partners, is consolidate all our properties into a REIT, attract investors and get a lot of investors too. And once you set up a REIT, you can have institutional investors and whatever. So, that's our biggest thing. So, setting up a REIT will solve our problem of being able to dispose it if that is the problem. Now, the question is, and we are still battling with this question. Do we go more and buy 10 of them? Because now that we've done a couple, a lot of these owners are trying to sell them to us with all kinds of self-financing options, etc. Do we continue buying or do we stop? Well, you know us, we're not about to stop anytime soon.

The biggest problem we're having right now actually is operationally. I think we need to really build a systematic approach to management and leasing and construction. So, as you were talking about the operations, each one of these departments need to work out the operational kinks and Saul was going to be mentoring a lot of marketing people, marketing workers. I'm mentoring a lot of managing partners to run these projects across the nation. On one hand, we have a ton of properties available to us. On the other hand, we have a lot of investors interested to invest. And the speed of execution is where basically, we try to work out the kinks.

So far, everything works well, but if we're going to do one at a time or two at a time, I mean, it's fine, it works too, by the way. But because Saul was doing 100 houses or 70 houses a year and I was used to do 60, I'm trying to figure out how do I pull in resources and operational partners who can run these malls while we find the deals, find the money and basically create value? Because we are rebuilding American landscape right now with these malls. There are other companies that do this by the way, but their approach is very simple. They get everybody out and convert the entire thing into an industrial facility. I think that approach is actually probably less risky than ours. But ours is more profitable because we have higher rents. Our retail tenants are going to pay higher rents. Eight to 10 bucks a foot for restaurants and food halls and stuff. And I think they're more fun. To have a big warehouse storage facility in the center of town is not exactly exciting.

Dan: Is there also an easier sale to the zoning board if you were to take on another mall when you're going to include some component of retail versus an entirely industrial...?

Rafik: Every town mayor and council would not want it to be a dead storage facility. And so, before we even said we want to convert it to flex, we created a nice presentation. We said, "Look, all we're trying to do is revitalize the boxes that are not going to come back." And sometimes, they say, "Look, you're not going to have more than 20,000 square-foot industrial tenant and you're not going to have more than 40% or 50% industrial in it," which works. But don't forget, our flex tenants like gyms, they qualify as retail, but they cannot pay retail rates. And so, for us, getting a Jiu-Jitsu gym, getting some sort of a lifting gym that's not a national franchise at $5 triple net, works just fine. But for them, it's affordable space in the heart of town.

Dan: Yes. $5 triple net. I mean, when we had like the big gyms like Planet Fitness just probably paying nine or 10 bucks right now, LA Fitness must pay somewhere close to that. So, they're paying double and they're in some retail spaces. Do you think that's a relic? A little bit of how retail kind of took a hit, right? 10,15 years of Amazon and everything and retail was not the darling of real estate with low vacancy rates that it is today.

Rafik: Definitely, a lot of pressure.

Dan: Yes. Right? And the other, I think, headwind for the gym business. I heard the GLP-1 drugs, Ozempic.

Rafik: Hmm.

Dan: Right? Weight loss.

Rafik: [inaudible] go to gym. They just take a drug and they [inaudible].

Dan: Yes. Literally. I hear the big execs for like some of the largest fitness companies, Weight Watchers and the rest of them were like very worried in seeing the numbers change dramatically. I'm not going to the gym anymore. It was like it was totally about weight loss.

Rafik: Interesting. I didn't even think about that but that's a very good observation. See, for us, here's the thing. If we provide affordable space, I think all those guys that are trying to shrink and have more affordable rental spaces will hopefully come to us. Otherwise, those in line retail centers will have to drop their pricing as well. And I think being in low basis and very well-located assets with ton of parking. One of the things that we haven't even talked about is ability to redeploy some of the land that was used for parking in the past into some housing and other types of developments. Why? Because when we shrink the retail footprint significantly, the traffic counts into the mall and parking ratios changed dramatically. You don't need as much parking. If you take a picture of this particular mall from '80s, there is not a single place to park. Now, the same mall goes down even with the industrial redevelopments and stuff. We're still having a 50 to 60% of parking lot available for redeployment.

So, assisted living facility or an apartment building or maybe townhouse development. Whatever works. Whatever people need. I mean, it's all local-related. So, it's all about demand and supply and interest rates but affordable housing across the United States has a really high demand. So, even if we put an affordable housing development, I think there's a way to monetize that land whether we do it ourselves or whether we sell it to a guy who focuses on that.

Dan: Yes. With that basis, your options are endless there. It's funny. I called Saul on the phone, or I see you in Vegas a few weeks ago and I think both you guys were like, "We're not buying anymore. We have enough. We're totally done." Now, I hear you saying the complete opposite and I'm [crosstalk]

Rafik: No, it's temporary. We're not buying anymore for three to six months. We need to conclude these projects and [crosstalk].

Dan: Okay.

Rafik: Although Joe Dispenza had a very interesting impact on us because we're like, "Dude, we already have everything to be happy. Why are we doing more?" But I have an answer for that as well.

Dan: Is that an answer you're going to share with us?

Rafik: Oh, the answer is very simple. Why not improve? I mean, one thing is, I don't want to think that I'm doing this because of the money. I'm really good at a specific task. Let's say, I'm a basketball player or football player and I got better and better and better because I trained, I studied it, I had mentors, I read books on it. And now, in your prime, I'm 45, Saul is 43. In my prime, you stop. What else are you going to do? Go fishing? So, the only thing we need to do is balance it with our personal lives, with our wives, with our families, with our ability to travel the world and experience it and work out and not make it all about just one thing and working 24/7 or 80 hours a week. That's not what we're going to do.

So, to answer your question, Saul and Dan, we're going to do these but we're going to do them on our terms and even if we provide the operational sort of mentoring to our managing partners, we help them to build these malls. Guess what? These towns need you, need us to redeploy it. Do you know how much commerce happens and how much business activity happens in these malls now as we fix them? And so, all we're doing is just adding value to the communities, adding value to the tenants and improving these neighborhoods. So, that's the answer. It's not to be a cop out and go retire selfishly. Help, continue working.

Dan: And I think there are a lot of people in the commercial real estate space when we hit a bumpy patch like we have since the interest rates essentially doubled in 2022, there's a lot of people who said, "Hey, I have enough. I'm done." And then you're going to find another cohort of the successful commercial people. Maybe they get 10, 20-million-dollar net worth, could be less, could be more. And then, they become very conservative, and they would not ever take on a project regardless of the basis that's going to maybe put everything at risk if they got to that point. And so, for that reason they're done.

I heard you share, and you've talked a little bit this way on today's episode, but I've heard you talk a lot before about the vision of like bringing the malls back to life and that being like a real source of satisfaction. Like you're breathing economic value back into this dying and dead parcel, getting it back on the tax roll at the simplest form. But how many people are going to show up and have their jobs because this space now exists? And you took a $30 risk on a $5 investment. That's a lot of risk on top of the $5 or $6 purchase price.

Rafik: When you look at the competitors trading at a hundred bucks a foot, it doesn't seem that risky.

Dan: Yes. When you put it like that. I guess, the shopping center that I own, I am losing sleep at night because we spent, I don't know, $700,000 to $800,000 in tenant improvements and built some nice restaurant and it's like how many times I drive by that nice restaurant somewhere here in Chicago where I live where it just didn't work out and I get a little nervous. It's like these businesses-

Rafik: You got to be very, very prudent with how you redeploy capital because that could be and by the way, that could be our risk too. If we bet on the tenants and it doesn't work out, what we do most of the time is make sure that it's a space that we can re-tenant immediately without much extra work. So, we're very prudent about the quality of the construction and the layout and everything. So, if we build out a day care, if we build a restaurant, it's always something that we can re-tenant pretty easily.

Dan: Nice. So, I have a couple of wrap up questions here. Did I forget to ask anything that might be really interesting so far as we dived on the or pulled apart the mall turnover strategy before we kind of get to our closing here?

Rafik: No, I think you've asked a lot of questions and I'm happy to answer any of your viewers questions. If they have any, I can provide my contact later.

Dan: Cool. One or two books that you have found transformational throughout your career, business real estate or otherwise, what would those one or two books be, Rafik?

Rafik: So, I'm a prolific reader. As you know, I read all the time and the latest book that gave me such a huge aha moment, it was really difficult to read but I was floored by how it just totally makes sense. And that was a book by David Hawkins, "Power Vs. Force." I realized the power you can wield as opposed to the force we exert in pursuit of things and how you can basically shift two things, or several little things and it will be much easier for you to achieve whatever it is you wanted to. So, that was a good book, obviously. I've read Ray Dalio's Principles. That was a pretty big book for me. The classics like Thinking of Rich and Poor, obviously, I probably read it 11 times now. Every time I re-read it, I get more jewels of wisdom. The Success Principles by Jack Canfield, I remember I was glued to the book when I first grabbed it maybe five years ago. That was a really good book.

But I would say that part of my success and part of the success of yours and many other people is continuously reading and exposing your brain to different ways people look at the reality. And books are basically a compilation of ideas, thoughts of some very successful or very profound person. So, reading books has definitely been a very key in my evolution as a real estate entrepreneur.

Dan: Yes. And I'd second that and that's why this question has been a mainstay of the show, all 252 episodes that we've done. I personally have read my way out of poverty. I remember crashing and burning through the crash, and kind of getting it all back together in 2012 and then going forward. But a mentor of mine recommended six or seven books or something like that right around 2012 and I remember buying them for like a penny each on Amazon. You could buy a used book and it was 4.99 to get it delivered. And when I got done reading, I was probably three or four books in and I'm like, "I can't believe." I probably spent $17 on this like package of six books and I knew that I was going to get rich as a result of the things that had come off the page there and I was like done with poverty. It did take another year, two years, three years to kind of work its way through and show up in the bank account, but continuously [crosstalk] reading is the... go ahead.

Rafik: It changes your thinking, changes your perspectives. And if I had to give any of your viewers any advice, find like classic, maybe five to ten books and just try them out. Listen to them on Audible if you cannot read but absolutely, a game changer. For most people that I know and most people that belonged to this Mastermind that we go to, everybody reads and they're all super successful real estate guys.

Dan: Yes, 100%. And the thing I like about a book. So, this podcast, I did prepare, I happen to know you offline. For every guest, I do the research on the business model, and I do the research on the guests. As best I can, I try to come up with some intelligent questions and make the 45 minutes to an hour a valuable time for myself, the guest, and the audience. That said, the caliber of the information that we can produce in this one-hour time that we have together, Rafik, it's [inaudible] in comparison to somebody who sits down and spends usually later in their career two to three years of their life, whether they did it with a ghostwriter or by themselves, thinking through their thoughts, compiling the absolute best of their 10, 20, 30-year careers and then selling it to us for $17 to $27 on Audible. What kind of a deal is that?

Rafik: They went big time.

Dan: Oh, yes. 100%. So, the crown jewel of wisdom, Rafik. If you could go back and share with yourself, you're a credit analyst at the beginning of your career, you know everything you know now in 2024, what would the crown jewel of wisdom be that you would share with yourself then?

Rafik: So, I'm very gullible and I'm just trusting person. I feel like the world is a reflection of who you are, and I've always pride of myself being honest. I'm radically honest. I try to be transparent. And I think today, having gone through all the turmoil, I recognize there are two types of communication out there. There's a verbal communication and there's an energy communication which actually partly is from the Power vs. Force book. And you get a gut feeling about somebody. And so, I would say always, always, always trust your gut feeling first. If your gut is telling you, "Hey, something's off. Stay back and don't engage." I've lost so much money and so many sleepless nights because I bet on the wrong guys or gals, and it didn't work out in the end because I suspected it's not going to work out, but I went against my better judgment.

And ultimately, in a TED talk I'm preparing, or I actually delivered at our Mastermind. Recognize that your entire success or your life is a compilation or is based on a contribution of about 150 people that are in your social bubble. You will have relationships throughout your life with only about 150 people. You simply don't have enough time to spend with more than that. You might have 5,000 Facebook followers. You might have hundreds and hundreds of friends. But because of the time limitations, there's going to be five people you spend the most of your time with and there's a support group of 15. And if you're really, really careful about who you have in those critical people around you and pick them like your life depends on it, your life will be impacted in many, many ways. Because your beliefs, your self-perceptions, your opportunities, your resources are all confined to these very few individuals. So, don't be shy, reach out, and ask for people to come into your life so that they can help you and elevate you to whatever you want to do. That's my advice.

Dan: Yes, I love that. I'm glad you brought that up. The 150 people, five people you spend the most time with and then 15 support people.

Rafik: Power of 50. There's a power 50, 15 and five.

Dan: Okay. 50, 15 and five.

Rafik: Five, every day, you interact with them, 15, I think once a week and then 50 is once a month.

Dan: Does the five people include your immediate family?

Rafik: Well, it includes your spouse. Your spouse is always going to be number two...

Dan: Number one? Yes.

Rafik: ...number one. And by the way, these five can be in different specific tranches of your life. You might have five people who you do sports with. Like, if you want to do a triathlon and you have five friends that do triathlon, there's absolute guarantee that you'll do a triathlon, or you drop out of the relationships. If you have five people that are multi-millionaires and you interact with them on a regular basis, either you will drop out of friendship with those guys or you will become one of them. That's just how it works. That's why it's not just five people. It's five people in each individual area of your interests that you need to seek and get advice from and share resources, etc.

Dan: So, you and I are both at a place where we can give opportunity to people, and we're challenged probably with many requests for people to try to come in and be the five or be the 15. You and I, just by the nature of like where we've made it so far in life. But I think if someone was on the other side of the coin, right, let's try to imagine being on the other side of that interaction and you're trying to make the jump into the next challenging level of your life. You're trying to be the 15 or the five for someone who maybe has the thing that you want that you haven't gotten yet. How would you advise them to approach that conversation the way they should think about that so that they're not a turn off or a drag to the people they're trying to sort of connect to? Does that make sense? [crosstalk]

Rafik: I get it. I think it's a really good question. Because people say, "Well, nobody has time for me. They're all too busy." It's a staircase. You can jump from the first floor to the tenth floor. It's all about adding value, understanding what the other person needs and providing that value to them. Whatever that value might be. For example, when I met my mentor, I couldn't provide value. I was financially distressed. I lost everything and I could buy a cup of coffee, but I listened. And he told me stories of his life and how he bought his first building and second building, and he was lonely. He was a lonely very successful guy. So, I got really lucky that I got him at that time, and he poured all of his information and all of his resources and investors to me.

The other thing I did, and I do a lot of that, and you do too. I belong to Masterminds. Every time you go and join a Mastermind, there's going to be a ton of people. In our Mastermind, there are 300 people that are all doing the same thing. Some people are ahead of others, and you can meet with them, you talk to them, and you will have two to three days of time to spend. You can ask them for lunch and then you literally ask. "How can I value? What can I do for you?" Well, you can maybe cold call in Beavercreek and bring me five tenants. Or you can maybe send letters and find a property and give me a lead or whatever.

And then, here's what happens. There's only 2% of people that can independently do stuff. Other people need direction and kick in the booty or whatever. And 99% of the people, unfortunately, or 98% in this case, will not follow through. And there was a "Yes, I'll do it," and they won't. They'll forget about it, and they'll say, "Oh, there's other priorities." They'll go play a game or whatever. And so, at the end of the day, it's about action, it's about getting stuff done. And sometimes, I meet young guys and there's so much potential, there's so much energy, and I say, "Here's the thing. I'll give you an assignment. Here's the mall, call everybody. Make 10 phone calls. Make 20 phone calls." This guy that made 60 phone calls. He brought... I don't know, seven tenants in the first two weeks that he was with us. That is a tremendous amount of value. Now, I see potential, I want that guy close to me because guess what? What's the problem I'm trying to solve? So, I'll deposit this guy with Saul and then we will basically make him into a managing partner because he's got the [inaudible], he's got what it takes to do it. And then, some other guys will say, "Yes. I'll make the calls," and they won't make the calls. That's the thing. That's just that's how it works.

Dan: Yes, I loved that you mentioned the Mastermind because I get a lot of requests randomly. I don't know these people face-to-face. I wouldn't know them if we walked by each other on the street yet and I get the coffee request a lot. "Oh, can we meet for coffee?" It's like, I just don't have that kind of time to put three hours in the round trip and go to meet somebody for coffee. There's no agenda, no reason. I honestly don't really respond to the request. However, if we're at the Mastermind, it's a different story. I've dedicated those three, four, five days that we're out at that Mastermind to kind of clear the calendar and be available for the social meetings and the kind of random conversations without the agenda. That is sort of how I view my time at the Mastermind. I have sort of blocked off that time so I can be there and be present to do that organic networking, if you will, at those Mastermind. So, great idea on getting out too.

Rafik: And by the way, the other thing is, there are so many people. If one guy says, "No." It's okay. There's another guy. I cold called so many mentors back in the day when I was trying to get in into the industry and 80% of time, it was a, "No, I'm busy." That's okay. Don't get discouraged. Keep trying.

Dan: Nice. Any contact information you'd share, maybe point people to a website or some type of [crosstalk]

Rafik: The website is www.braitcapital.com. Brait means diamond in the rough. So, we buy diamonds in the rough and we polish them. And obviously, you guys have a diamond business. So, we're all jewellers, one way or another. So, braitcapital.com is my website. My email is rafik@braitcapital.com.

Dan: And it's my final question, Rafik. What is the kindest thing anyone has ever done for you?

Rafik: There's a lot of kind things. I'm very lucky I've had a lot of kind people in my life, even though I didn't believe that. It's all about your focus. If you mope around and say, "Oh, all these negative things happen to me," you will sort of experience it. After going to [inaudible], I've learned to focus on positive things in life and positive stories in the past. But many people, my parents raising me, I mean, they poured their heart and soul. It was tough for them, and they struggled, but they made sure that we kids were well fed, and they ensured that we go to school and never go hungry. So, our parents, obviously, and that goes without saying.

But my mentor, specifically, I have a mentor by the name of Alex. He was a super successful guy. When I met him, I was going through financial troubles. I'm basically at the bottom when I met him, and I was just coming out of 2008 debacle. And you probably know how that whole thing went down. And we just got together for lunch or coffee, I'd insist on buying coffee or lunch and we were supposed to do a deal together, the first one. And then finally, two weeks prior to closing, he canceled. He says he doesn't want to do it anymore and I have to close it on my own. It's a great thing that I was doing a seller financing, and he was kind of upset as far as [inaudible] was destroyed but I explained to him what happened, and he sort of allowed me to do the deal and we now are really good friends and he's another mentor.

But this mentor sort of took me in and gave me all these resources, all his contacts, all his information. Any problem I had, I call and boom, he answers. Sometimes, I forget that there's levels and levels of levels of complexity to this game we play. From finance to LTVs, debt service coverage ratio, to investor relations. I mean, it's daunting for somebody new to even count [inaudible] like that. Coming into this thing from flipping a business is one thing, obviously. We were sort of halfway there, but we've had mentors obviously in that sense.

But he was literally a guy who poured all his energy and he's very proud of me now. Obviously, we still get together. My portfolio is a little bigger than his now, but he doesn't have any partner so it's a fair game. But I'm still growing, and he sort of retired, and he doesn't want to grow his portfolio anymore. So, that's basically been my thing. I'm very blessed to have had my mentor and for who I am today. Not only [inaudible] taught me skills. He also taught me a different way. Generosity. He's like, "Dude. Don't be like this. Just give them a discount and give them two months free. It's okay. Once you have a relationship with the tenant, they will pay you in the long run." And I was like, "Oh, yes." You know how we always want to negotiate and get a little more.

Dan: Every penny.

Rafik: No, it's not like that at all. You got to be generous. When you are generous, people respond to you differently and they will work with you long term. I was like, "Oh, okay. Cool," and boom. Now, I sort of put all of his ideas into this new business and it works.

Dan: Very cool. I got pages in notes. I really appreciate you, Rafik, taking the time out to share your wisdom on the show.

Rafik: Thank you so much for inviting me. It's great to reconnect, Dan. I hope to see you soon at our next meeting.

Dan: We'll be there. Cleveland, right?

Rafik: Yes, August. Thank you. Have a great day.

Dan: Thanks. You too.

[music]

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