EPISODE 1308

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

0:00:24
WS: Today our guest is Dr. Mas Oishi. Thanks for being on the show, Mas.

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Masaki Oishi (MO): Pleasure to be here. Thank you for having me.

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WS: Yeah, honored to have you on the show. Mas is not only a neurosurgeon in Houston, but he is also the co-founder and chairman of MarketSpace Capital. He has successfully invested in such commercial properties, over the last 30 years and has a master real estate investment portfolio of over 250 million in assets. He just released a new book called Prescribing Real Estate: A Doctor's Guide to Commercial Real Estate, I love that name, Mas.

I know you are moving into the real estate business for a long time and have invested in many different projects, no doubt, and a very experienced. You know, wanted to hear just a little more about the economic side or just your thought process behind, you know, the economy right now and how you know maybe places you're gathering data and how you come to those conclusions and stop into just some conversation around that at the moment.

0:01:19
MO: Right, well I think fundamentally, our economy did take a bit of a hit from the recent COVID crisis, and you know we are still in many ways, climbing out of the bit of recession that brought with it. There are some sub-sectors of the economy if you will that suffered more than others, including hospitality and travel. Those kinds of industries are still trying to dig their way out. On the other hand, what we've seen in terms of real estate, not the real estate market itself, is record low-interest rates and very high demand for housing. I'm still having a hard time reconciling those two realities, but it is what it is. And we're actually looking at ways to take advantage of some of the opportunities that we see, especially in sub-sections of the real estate markets such as multifamily housing.

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WS: You know that that's a great place for you to elaborate as well, like you said, looking for ways to take advantage of this. Could you elaborate on like where you see those advantages? What advantages specifically are you trying to take advantage of?

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MO: Right. Well, as I said right now the demand for housing, almost every single kind of housing, is very strong. And we've seen…if you want to look at the economic data, we've seen compressing cap rates. We've seen, you know, the studies showing that the deficit of rental apartments and condominiums for the next 10 years is probably the order of millions of units, and so there is a strong demand, not just have a president but also going forward for housing. And, you know, we like to focus, at MarketSpace Capital, we like to focus on a model that we call attainable housing, whereby we target middle-class renters, who seem to be, you know, the most intense segment of the population when it comes to, you know, going after real estate, and also, it's the fastest-growing segment that we see in terms of demographics.

0:03:28
WS: Yeah, targeting the middle-class renters. You know, how are you all picking your markets right now? Are there markets that you've been involved in for a long time? Or did that change, you know, over this past, you know, pandemic and year?

0:03:39
MO: Right. Well, I mean we are based in Houston, which, you know, I've been told many, many times that we're lucky sons of guns because, you know, this is the kind of market where you can pass it a cat, and you're going to hit some property that's interesting in terms of its value and usage. But, all joking aside, I think we have been fortunate but we're not just looking at Houston. We also have projects going on in Dallas – Fort Worth area, and also in other states including Las Vegas, and, you know, we're also looking at different parts of the country not just the South with the Southwest. So, you know, we look at properties with some guiding principles. One, of course, is the affordability of, of you know, the housing that we intend to produce, but also we want to look at other factors like sustainability and also want to make sure that it's inclusive, that you know, perhaps renters who have medical issues or senior citizens can also have access to those kinds of projects. So, we have a panel of econometrics that we use to determine whether or not, you know, the property is suitable for the kind of investment we're looking for. We actually look at somewhere between 28 to 33 parameters including things like local crime rates and education – the quality of education, but you know I can't divulge the actual formula for that because that's propriety.

0:05:15
WS: You know that was gonna be my next question, right? I want to hear all those metrics. Well, is there just, I mean, one or two metrics that you can share? That maybe you all have, you know, seeing that's been extremely crucial? Or maybe a major red flag when you see this type of metric in a property or market?

0:05:31
MO: Right. Well, I wouldn't necessarily call it metric but of course, you know, location is the most important metric in real estate for my money. But we also look at things like, as I said, you know, local crime, quality of education, as well as accessibility to things like public transport, or the highway system. There are all kinds of metrics that we look at and there is each way that is different and we don't necessarily use every single metric for every single property that we evaluate, but I think, you know, we've come up with our own formula that makes sense for us, for what we want to accomplish. And so that's kind of what separates our approach from other private equity firms or venture capital firms, or even real estate investment trusts who take more of a shotgun approach. Not that that's a bad approach, but we like our own approach a little better.

0:06:28
WS: Yeah, I like having a plan. I know that having something like that gives you some guidance. I think you're going to be a lot further along well. What about, you know, just from what you know what's happened, just from your experience over many years now and what's happened over this past year, you know, what are your projections? Were your thoughts over the next six to 12 months just in the real estate market?

0:06:46
MO: Well, I think a lot depends on which segment of the market you're looking at. Obviously, even before COVID struck the retail sector was definitely facing some tough times. I think a lot of that has to do with the advent of e-commerce and how it's becoming easier and easier to fulfill a lot of your shopping needs just by ordering things over the internet. You know, it's not necessarily good or bad, it's just different. And with change, there are going to be winners and losers and I'm afraid that a lot of the big box retailers, were already taking it on the chin, and certainly with the coronavirus endemic, that didn't help their cause much either. So, I would say, you know, even in a depressed type of sub-segment of the market like retail, if you can find bargains and if you like the property. You know, you know what you're doing, then there's certainly nothing wrong with was trying to create a project or business out of, you know, what you feel has value and what other people, like you know, guys sitting in an office in Manhattan, many thousands of miles away from where you are, probably don't see what you see. So, it's one of those areas where if you know what you're doing, and you know things that other people don't know that you certainly have an advantage, and I would not say you know don't invest in commercial, you know, retail properties right now. There are bargains to be had, I'm sure.

We take a different approach. We like to shift our resources into the segments of the market that are currently hot if you will, and certainly multifamily and industrial, in terms of warehouse and distribution type properties are very much in the hot spot, if you will, with today's market.

0:08:39
WS: Yeah. So, you still…you believe right now, I mean, it's still a prime time to be investing in commercial real estate?

0:08:44
MO: Well, if they…if you choose your properties or if choose your submarkets carefully, obviously it helps to have a plan. We like the econometric model that we use, and so we're very confident going forward. I have seen nothing to suggest that the low-interest-rate environment, that the environment that we see now, where, you know, there's a lot of capital floating out there, chasing investments. I have not seen anything that would make me think that environment would change so quickly. I think there are still a lot of countries on lockdown, there are still a lot of countries dealing with coronavirus. I think, most recently India, you know, one of the most populous countries in the world is going through quite a bit of trouble with managing the crisis. And so, you know, the central banks tend to respond to crises by printing money and keeping interest rates low, I think that sort of mindset is likely to continue for the foreseeable future.

0:09:44
WS: Any thoughts on that right there, as far as how the central bank affects, maybe you as the commercial real estate investor?

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MO: Well, obviously central banks control the flow of money and the cost of money in terms of short-term interest rates. Now, you know, is it possible that worldwide inflation could suddenly spark and long-term interest rates rise and upset the entire apple cart. Certainly, it's possible, but I would say looking at the trend of the past 10 years, what we've seen is more of a deflationary scenario when it comes to basic goods and services, that is what is measured by things like the CPI which is put out by the Bureau of Labor Statistics. The official inflation rate has been less than 2% for the last 10 years on average, probably even longer than that.

Now that's not to say that inflation doesn't exist. I do believe it does. It's just in the categories of things that aren't necessarily reflected in the CPI. The cost of higher education, for example, that's not reflected in CPI at all. And the cost of healthcare makes up only 7% of a consumer price index. So, you know, there are a lot of things that we look at all. If you want to live a middle-class, upper-middle-class lifestyle that doesn't necessarily jive with the basket of goods and services that the government looks at when calculating the official inflationary.

0:11:16
WS: Well, I appreciate your time today, Mas. It's a pleasure to meet you and just appreciate you sharing just your thoughts on the economy and different things that have happened, how that's affected your business and moving forward, and even your panel of econometrics that you use.

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MO: You know this went by so fast I guess, and I was having so much fun but I really do appreciate your having me.

[INTERVIEW 2]

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WS: Our guest is Terry Hale. Thanks for being on the show, Terry.

0:11:40
Terry Hale (TH): Hey. Thanks for having me, Whitney. Looking forward to it.

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WS: Now, Terry is an active investor, trainer, and CEO of a private commercial real estate firm that provides acquisitions for all commercial property types and investment opportunities. The firm executes value-add strategies through direct and joint venture investments. Terry's commercial real estate training provides the techniques on how to find, pre-screen, evaluate, structure, and use negotiation tactics for repositioning and stabilizing commercial properties.

Just getting to talk to Terry a little bit before the interview, it's incredible just to hear the length of experience and different types of real estate investing and commercial real estate that he has, so a pleasure to have you on the show, Terry, a pleasure to get to meet you. Give the listeners a little more about who you are, and let's dive into the commercial real estate business a little bit.

0:12:28
TH: Yes, yes. I love this stuff, Whitney. Thanks again for having me. I really appreciate it. I've heard nothing but great things about your show, and now it's wonderful to be a part of it. I do have 25 years of experience moving forward and basically identifying properties that are ready for repositioning, meaning filling vacancies, rising rents, and stabilizing. So we have a T12 going back to the market, trading it at the market cap, and selling these properties at top dollar at their highest and best use. That was a strategy I used for a long time once I got my niche down to a science.

Then, of course, if the deal is really good, location, location, location, and it's pulling in cash flow after debt service, depending on the structure we put together, getting creative, then we go ahead and hold those on our long-term portfolio. Primarily, at any point of a potential recessionary situation, we want recessionary-proof properties. So we focus on these value-add opportunities for self-storage and also multifamily, some RV parks, and mobile home parks. Those are basically the sectors that we look into.

I'll just give a little bit of background of how I started out. I think that's important for folks to know that I'm qualified to be both on your show and as a trainer, mentor, and being out there as a seasoned investor. So when I first started out in this business, what I started recognizing were opportunities to look at a certain formula that a lot of standard investors use, waiting which is the cap rate formula. Looking at that cap rate formula, I get out there and I look for property, dig around. This was even before the resource of the Internet was available. So I was out there traveling, really pounding the pavement, and doing it old-school style. I hate to age myself by saying that but it's part of it.

I recall one deal in particular where um I'm out here in California and I was in Florida. It was right around the Fourth of July and it was so hot, a different type of heat. I remember sitting there speaking with this gentleman about this opportunity. It was on John Young Parkway by the Millenia Mall. Maybe some of your listeners know it. I was looking at this project. It was a ground-up type of opportunity. I was just going to do acquisitions and secure the land, and then I would just sell it off to builders and developers. That was part of my strategy at the beginning of my career.

In that hot sun, it was so humid. I almost fainted right there in front of this guy. He asked. He said, "Well, why do you travel all the way out here? We could have just done business over the phone?" That was kind of like my aha moment into, okay, there are other ways to do business and more efficient ways and by doing so and just using the phone and being able to smile and dial and connect with people and really honing in on the fact that I need to focus on reposition property where people have to sell not just one sell. That's kind of how I entered into doing what I do today.

We move forward. We tie up anywhere between a deal with three deals a week. It's a massive amount of energy that goes into it. I have the folks that are sitting just across me right here in my office even today doing acquisitions, and we're basically thrown against the wall and see if it sticks and makes sense of it. If it looks good, we go ahead and put our time and energy to take it to the next level.

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WS: That's awesome. I appreciate you elaborating too just on your experience and what you all are up to now. Maybe you could – I wanted to back up just a little bit. You talked about like getting your niche down to a science. Maybe you could just speak to the importance of that. Does that mean to you just finding one kind of asset class or – Obviously, you're talking about the repositioning properties? Maybe you could highlight that a little bit. But how has that changed your business, just really finding your niche and even getting it down to a science as you mentioned?

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TH: It's changed dramatically because before like I was saying, we throw everything against the wall to see if it sticks. Time is your most precious asset. So if you're out there and you're working with projects and you don't have really a laser focus and you're more so like doing that shotgun approach, just kind of sporadic. It's just going after all these different, as you mentioned, asset classes and different locations. It's kind of like being blindfolded with a handful of darts being thrown at the map wand you're all over the place. How can you justify a good opportunity and an investment of your time and energy and capital to move on?

So we've really toned it down. We started looking at certain markets that are appreciating. We do look at crime reports obviously, like all the basics that any investor that's been in the game just for a very short period of time would want to know. We want to know are more U-Hauls coming in or if more are going out. We want to understand exactly is there large master plan

communities coming in. Is the place saturated? If you're dealing with self-storage, how many other facilities are in the area? Are you the big fish, the small fish? All these little things come into play as far as our metric of how we move forward.

Then I really hone my skillset for myself and my team and all my clients that are out there to use something that, Whitney, I call a three-prong approach. Diving deep into really my niche, we're looking at a dollar per door, we're looking at a dollar per square foot, and we're looking at an income approach. A lot of times, we're looking at these repositioned properties, so they don't qualify for bank financing because the books are so bad. There really is not a P&L. There's not a trailing 12 months.

So if it comes down to it like I literally just put this deal under contract two weeks ago and I've been waiting for the P&L and for all of the expenses and everything to come through and all the supportive info for my due diligence, and it came through on handwritten pieces of paper that were scanned in. I hand it to my guy, Matt. I'm like, "Here try to make sense of this one." So taking that time and energy, we need to understand that a lot of these deals, don't have intelligent documentation, and so we're very patient with that. We have to look at it as a replacement value as if it fell to the ground. What would it cost to replace it? That's going to be our dollar per square foot or a dollar per door if there really isn't any deferred maintenance. Or if there is deferred maintenance, we need to add that to our purchase price to know what our total skin in the game is going to be on our purchase.

Once we kind of dial all that in, we look at an income approach, and this might sound crazy to some of your listeners. But we're buying a property that is ready for repositioning, that is suffering, and we're buying it for 10 caps with terms. I have four deals right now. All four of these deals, and I'm just talking specifically about these, have 10-year seller finance notes, which is amazing. They're all low on cash outlay but they need – Where the capital goes is not so much into the repositioning of the property as far as the cosmetic and deferred maintenance. It's more so into plugging it through with either e-commerce for self-storage or getting the right management for multifamily.

Believe it or not, that takes some time. It takes some energy, so I'm not dishing a magic pill here. It takes time, and I'm sure your listeners that are out there being investors, know. They have to pick and choose the right deals. If you don't, then you could end up taking over a headache that can't be cured. So we're very careful in our niche with acquisitions.

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WS: I like that. I like how you just call it getting it down to a science and I think that's where you're really going to start to see things speed up for you, right? You called it a recessionary-proof property. Elaborate on that a little bit and just what you see is that recessionary-proof property, what that means to you.

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TH: Yeah. I don't have a crystal ball [inaudible] in the shop, right? So I can't predict the future. But the fact is as we're all in this current timeline, there's still all those people and 50 million-plus unemployed, and there's all this money that's supposed to be supportive for these people. That's eventually going to dry up or they're going to have to go print more money. I'm not sure what's going to happen but I know there's going to be a ripple effect down the road somewhere.

When that happens during a recession, you got a house. Someone's living in that house. They lose that house. They have to downsize. Where do they move into? They go into multifamily or they'll live in their RV or sometimes unfortunately their car and try to park it on an RV. Or they'll move into seriously affordable housing which is mobile home parks. That's why those are recessionary. Then if they downsize, especially businesses closing, they're not just going to get rid of all their stuff.

I was looking at statistics and I'm sure a lot of people have seen the same statistics, and they show that self-storage is so low on the risk factor. There's only one less risky which is data centers, which are pretty amazing. In my forward-thinking, people will eventually pay their bill if their average storage is 50 bucks. But if someone's rent happens to be 750 or 1,000, they need to eat first, but they can fall behind a couple of months and then scrape together some change out of the couch to pay their self-storage bills. So that's why it's so less risky.

But self-storage is not just my main focus. I'm really looking at all the different property types that I authored recently. I self-published a book called The Two Best Strategies to Profit with Commercial Real Estate. The two strategies are, one is to locate the ideal property that can survive a down market and hold it as far as part of your portfolio. Then the other strategy is to, as you said, pre-screen, evaluate the beginning of our call and really identify a great opportunity, create some great terms with negotiation tactics, and then offer that back to a wholesale list, so people can get out there and take advantage of our efforts of putting a deal together.

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WS: Nice to know. That's awesome. I just appreciate you elaborating even on self-storage as well and some of the statistics and things we need to be looking at. You said, in the beginning, you started using a cap rate formula. Could you just tell the listener what that means and then has that changed?

0:22:55
TH: Right. So what was taught to me a long time ago is your standard cap rate formula which is all your gross income which is really basic, right? Then you itemize your expenses, and they have to be justifiable expenses. Once you take out those expenses, then you end up with your net income, and the standard formula is your NOI divided by your purchase price equals your cap rate, which is a double-digit or a single-digit number. The double-digit, the higher the number, the better for the actual buyer because you're not buying retail.

If you're looking at a low cap like out here in California, we got crazy caps, man. We got like three-cap, four-cap, five-cap, six, and that means that you're buying. Either you're over

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overpaying for the property, and it's going to take a while for you to break even. Or what's happening is you're just buying into standard retail, like most of everything that's for sale that folks will see out there like on LoopNet and [inaudible] and selfstorage.com and all these different websites where you can find these properties.

So what I started using is what I refer to as a 10-cap formula, and it's very, very basic and super easy to use for anyone who's just starting out and you want to identify a great deal. If you were to tell somebody, "Hey, I got a deal on a 10-cap as is. Not a forward-looking projection but an as is 10-cap," they're going to drool and they're going to want the deal, right? Because if people hear about that, they're like, "Well, I could make money right away because I'm buying so aggressive, meaning I'm buying very, very low."

We buy only as-is value. So if the as is net income, remember the gross minus expenses equals the net, if that net, that annual number is let's say 53,000, well then our offer is going to be around 530,000 for a 10-cap. If it's 61,000 NOI, it's 610,000. So all we're doing is just adding zeros and using that metric. It's a very quick surefire way to just look at these deals and see something. Obviously, if you see it's a $50,000 net income and they're asking a million dollars for the property, then you know right away it's like a five-cap, so you pass. How quickly can someone just go on a website and just like rip through it and just look for deals that are sitting at 10-cap? Even some of these uh websites will have filters and then they have keyword searches where you can actually put in certain cap rates where you can go 8-cap to 12-cap. The fastest way to turn an 8-cap into a 10-cap is just to offer them a lower purchase price. That's it.

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WS: That would be the fastest way from the very beginning. Right?

0:25:30
TH: Yup, yup.

[END OF INTERVIEW]

[OUTRO]

0:25:31
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