EPISODE 1354

[Continuation of Episode 1353, Part 3 of 3-part interview]

[INTRODUCTION]

Alex Moore (AM): We really are focused on being really ethical operators and providing great returns for investors. That is the number one goal and to operate with extreme integrity. Just be completely transparent, and really good to our residents, really good to the communities that we are buying and acquiring and operating because we're not in it for a fix n flip and doing harm to a community. We really want to do well by communities. We really want to do well by investors. And we believe that that's the best way to provide those good returns.

WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest again is Alex Moore. We're gonna continue the conversation from yesterday. She's the founder of Greywhale Capital, a multifamily real estate investment firm based in San Francisco. She's led Greywhale Capital to double growth year-over-year since its inception. So, you're gonna learn a lot from Alex in our discussion today. I am grateful that you are with us again today. I hope that you have liked and subscribed to the show. If you have any feedback, we would welcome it. You can email us info@lifebridgecapital.com. We would love to hear who you would like for us to interview, the questions you would like me to ask, and how we can improve it so we can help you to grow your business. Please like and subscribe. We're forever grateful.

[INTERVIEW]

WS: Alright, Alex, shifting gears a little bit. If you could look back now, you know, when you were making that transition, or you're thinking about real estate, or maybe even before that, knowing what you know now, what would you tell yourself maybe even before college, or maybe even younger? What do you wish you had known? Or what would you have done differently?

AM: I think, if I had been able to talk to myself, you know, I made the decision to go into medicine when I was 16. I did a few internships and shadowed people that I really respected. But, I think, if I really would have pushed the envelope and felt comfortable saying, okay, what would it look like if I did anything, really have talked to more people outside of traditional career trajectories? Like getting down into, if you own a landscaping business, I just think that would have been a really good thing for me to just have had exposure to like, how do you run that business? How do you scale that business? Why did you get into it? Just from talking to small business owners would have been a really huge exposure to me because I had it in the family. But at that age, I didn't really think about approaching it from that perspective. And maybe that's where I'm at now versus what I was back then. But I think the owner mentality of how that happens and how do you create a successful business. I think having more exposure to that (as a) younger (person) is huge. I know that there are schools that promote that entrepreneurship early and I think it's such a good thing for kids because you're so creative when you're younger, or you're really less, you have less inhibitions, less concerns. It's a perfect time to start something.

WS: There's less fear.

AM: Yes. And you have less on the line. Sure your business folds, it doesn't matter. You've tried and I think that's so awesome. So, I would love to have had that exposure earlier. I think having a better financial understanding younger for how to build a successful path to wealth and sustainable growth. I think would have been awesome. I would have loved to have had someone say, you know, buy a duplex and house hack for your first thing or do that for college. I totally would have taken him up on that if I had even thought that was a possibility. That would have been a huge thing and just opening your concept. I think, anyone who can kind of inspire younger people is huge because I did have a few key mentors through undergraduate and graduate school that really helped me see a higher potential for myself. And the more people you can have that, the better because I think we often our biggest limiters when it comes to how far we push ourselves.

WS: You know, I'll tell a quick story. I was in a group of entrepreneurs not long ago. One of the guys there, he has a successful business but he also farms. I think, mostly for fun. But they just enjoy the farming and I enjoy it as well. But thankfully, my livelihood is not, you know, on the farm. But he has boys. He said when his boys got five years old, and five or six, he bought them a calf and it became their business. They had to learn responsibility to care for this calf every day. Well, they finally take that calf to market. At that point, he's paying for all the feed, everything. Then they sell that calf. Then they go and get to buy one and then they are spending, you know, it's money. They feel like they've earned anyway, you know. And they're spending their money while you're on this calf. They get the next one, then they actually can afford to pay for the feed then as well. They're getting to go to the store and buy the feed and they're getting to track these things. And then by the next time, he said, you know they can almost buy two calves. And so, he said, like he's 12 or 13-year-old has like a whole herd, their own. So, it becomes their own business. He said it may not be extremely profitable for them. But the lessons learned are just amazing.

And so, you know, that made me start thinking about just what my boys can start doing. How can I encourage that? How can I just start building that in them now? Even to give them an experience like you're talking about. If I could just house hack, learned a little bit about business and the opportunity, it may have just made you pivot altogether a lot earlier. Do you have any predictions, Alex, just in the real estate market over the next six to twelve months? I know a lot of people ask this but, you know, maybe lean on, have you changed your underwriting? Are you still buying or selling? Depending on what you're expecting over the next year or less in the market, how's that changing? How you're looking at deals or what you're doing?

AM: I'm glad you asked that because I think that's been so on everybody's mind. Where the markets have shifted and where debt is now is so different than what it was just a few months ago. We're seeing some good pricing corrections. I think that offers a good opportunity for people to get more reasonably priced assets or in ones that are now closer cap rates to being reflective of their asset class which I think wasn't something that we had for a long time. That's been, I think, a good thing. In response to that though, also, there's been an equity shift from traditional retail raises, those have been a little bit more difficult. And so I think diversifying your equity pool outside of people who are just reliant more on stocks into people who have more consistent large cash flow coming in and have equity that they need to deploy if you're doing traditional retail raise. Otherwise, you know, expanding into other equity sources, like private equity, I think is a good one to just diversify out of.

But over the next six to 12 months, I would anticipate that we're going to see some more reasonably priced assets. We're going to see likely stabilizing financing. I think we'll have probably a couple more hikes. So, getting more creative on how you're looking at financing for value-add products. For us, traditional bridge was what we used to model out all the time and acquire. But now, we're looking at more fixed bridge products and doing lower leverage. And so finding assets that can do that, it actually gives you more stability in your asset because you have less leverage on it, and you have this fixed rate.

So, as long as your investors are okay with that, and doing it potentially just five years straight hold. I tend to be pretty conservative and have lower risk profiles as reflected in my investor base. And so, I think that just being creative about how you're financing these especially with the rate environment of where it's going and the predictions for when (inaudible) will be. So, call your mortgage brokers all the time, just like having regular check-ins, where they're seeing rates that...because anyone's gonna be a little bit more pessimistic versus optimistic. And when you don't have an active deal, that's a good time to get a real temperature because when you have an active deal, everyone's gonna promise you the world. They're gonna say, yeah, we can get you this rate. So, you need to know that before you actually get your deal. That this is a reasonable rate to be projecting in my underwriting. And when I'm going into fast and final, I have assumptions that are correct for making the deal metrics work on conservative leverage.

WS: That's a relationship that you have to nurture as well. Even when you don't have a deal, right? You need to be making that phone call, no doubt about it. If any of us learn that, unfortunately, many people the hard way, you know, when they shut the country down. When all that started happening in March of 2020. I knew our lender, we were closing a deal like the third week of the month, it was the next week that they shut everything down. We were the only deal or everything they had on their books at that moment. They didn't close. They backed out except for ours. It's just the Lord. Like, I can't even explain it. But you know, so grateful. Obviously, it would have been so detrimental for them to back out the last minute. But I just think that relationship was so important that we had with them. You know, that they still did our loan even though they were backing out of everybody else's. So yeah, great advice. Having that relationship on that front as well.

So, what about preparing for that downturn though? If you, let's say, you do expect, we always want to be prepared, right? Sometimes, we expect it more than others. Sometimes, some people expect it every year and it just keeps going somehow. But either way, we want to be prepared. Even if it's not a massive market shift, you know, a boiler still go out, roofs still fail, AC units still fail. You know, things still happen. But then there could also be a market turn as well. Unfortunately, we don't want to be in the spot where all that happens at one time. But if it does happen, we want to be as prepared as possible, right? How do you look at that? How do you make sure your deals are prepared for something like that?

AM: I think a lot of people in such a bull market that you have been able to overpay for an asset because your rents have been able to support that. I think one of the things that, right now, rents are still going in an insane velocity. And they may continue because the housing supply is lower than the demand is. And it's going to be that way for the next few years. But, looking at where inflation is at and the lack of compensation, keeping up with that, I think, what's important to understand is will your resident base able to tolerate the rents that you anticipate? So, I've been very cautious about where we're anticipating future rents and making sure that we are keeping those accelerators reasonable. And often we're doing half of what the market is really forecasting. So, we typically underwrite a 4% or a 3%, year-over-year rent increase because we want assets that if it's just keeping up, it's still profitable. We also do a reserves account annually.

So, we do keep a pretty hefty reserves account in order to protect against the future because we never want to be at a place where if it's a maintenance issue, we need to be able to do that. And the building should be able to sustain that. I think our investors appreciate that, too, because we're always transparent about that, and about making sure that the asset itself is what we're protecting first. In that way, we're protecting your capital. I think a lot of folks think that if I get really amazing distributions all the time that means the asset's doing really well. I think that if you're giving too many distributions out like if you're going all in to the distributions, you're probably doing too much upfront, and you need to give yourself a little bit more buffer. I'm always like, we give appropriate distributions but we want reserves accounts to be high. We want us to be forecasting reasonable expectations in the future. And people do really well when you can set expectations up front. That reasonable expectations and try to over-deliver. People are much happier with that than saying, we're gonna promise you the moon, then we fall short. That just doesn't go well. Protecting against the future is really about being conservative upfront. That's why it takes so much work to find things that actually meet your numbers. It's discipline and that really is hard. Because it's so much easier, it is easy to acquire the wrong thing.

I think a lot of people don't realize that when they say, you know, I've grown to X amount, and I want to get this much more in the next year and a half to two years. And it's like, well, is that the right product? Because for the last few years, we have been in such a good market, that you don't have to be fantastic, you don't have to be great at acquiring good properties. You don't have to even be that good at operating properties in some circumstances because you've been able to sell at compressed cap rates. So, I think we're gonna see a lot of correction over the next couple of years. We're going to see a lot of short-term debt expiring and likely a lot of what I would say on sale buildings where you can get it for a lot less or more of a discount than previous years. I think that's what we'll be seeing.

WS: You mentioned having that hefty reserve budget. Is there a way that you calculate that in some way? I know it's different for every project, obviously, there are so many things you take into account. I know we do when we're thinking about how much reserves we need for this project. How much CapEx? Or how old is this building? How many AC units? I mean, are they all brand new? Are they all 30 years old? All these things that obviously you need to be thinking through. But, sometimes it can be as simple as we want six months of expenses in the bank, or we want a year of expenses in the bank. Is there a way that you think through that? At least to get that process started when you're thinking about a reserve budget.

AM: We usually do six months upfront. We have that factored into our closing costs that we're going to have a reserve budget of six months. And then additionally, we'll do per unit. We'll have a reserve budget that we're saving on a per-unit basis. That is a minimum of $250 a unit that we save into the reserves. That will cover your standard things that come up during the year like your appliances if we need to. And then we have a CapEx budget that we go really aggressive on. We often have a pretty good contingency budget because you just don't know what you're gonna find in DD in today's terms. You don't have a lot of negotiating power. I think we'll start seeing more of a shift on that. But you want to make sure going into it that your CapEx makes sense. So, we look at it as an overall CapEx budget and what does that mean per unit? And does that basis make sense for the purchase price plus the CapEx? Does that make sense for what's being sold and traded and for that asset class for how old it is? Where it's located? What other trades are at? So we really, really focus on that. Then, I know cap rates have been all over and that's kind of a heated debate. But I personally, don't feel super comfortable getting a sub-three cap in general just because if I'm going to trade at a sub-three, I always joke, I might as well go to LA where this has been, you know, in place for so long. You have a really good population base there that's always been there as super perennial and being that I live in California, I'm like, I know how expensive things are. So, if I'm going to be paying that rate, I might as well just go down there.

WS: I appreciate you laying out just how you think about that. I think often we say, well, we're so conservative, and we have a big reserve budget, and then we go on to the next thing. But you know, oftentimes people don't really share how do we think about that? I want the listener and myself to be able to better understand how other people look at that and kind of methodically go through that process. Appreciate that.
What's a way that you've recently improved your business that maybe we could apply to ours?

AM: Oh, I love that. Recent improvement has been, personally, I think, as the owner, I get stuck in the weeds a lot. So, I've been trying my best to get myself out of the weeds as I'm doing operations. So, I think the biggest improvement has been working on myself, pulling myself out of the business to more of a global. So, I've been doing my best in and I'm not very good at it, I'm just gonna be transparent. But taking time once a week to really think about the business rather than being in the business, I think that's really an important thing that I haven't really allowed myself to do previously. That reset makes me more energized for the business, makes me more excited, gives me clarity of where our obstacles are and makes me a better leader. I tried to do that on Fridays, to say, hey, I'm gonna take a couple of hours to really take some time to think about the business. That often includes, I take a long walk, get myself a coffee, and I say, okay, these are the things we need to work out. I think it's really important to do that reset as the owner of a company. It's easy to not take that time. It's so much easier not to take that time but I feel like I am so much clearer when I do and give myself that breath to say okay, what do we need to work on? And it gives me much more focus for the next week.

WS: Have you read the book "The Road Less Stupid"?

AM: No, but I love that title.

WS: I've recommended it a ton on the show. But again, Keith Cunningham. He's failed at business and he grew another massive business. Each chapter is like its own coaching session about different parts of business. But, a big thing that he focuses on in that book is the thing called "thinking time". And I've talked about it a bunch on the show and how that's helped me and my wife a bunch just thinking about our family or business. But ultimately, it's like creating the space to think right and to think well. It's difficult and I think when you're really driven and you feel like it's very unproductive, it's like, I'm just gonna go sit. What are you talking about? But, it's like providing that space. And he lays out a way that he's found to be very successful doing that. Anyway made me think about, you know, you're just going to get a coffee or whatever, it's like creating that space. And so, love that and just the focus of keeping that in there, and the time for that, it's hard to do. So, what's your best source right now for meeting new investors?

AM: For meeting new investors, my best source of it, like where my funnel is, it's been very organic. So, I have to say that most of the time, it's actually from friends and family that have extended beyond that. It's not even that they're all local. I certainly have local investors but I've been very surprised by the breadth of extension from myself that has happened. So, we've lived in several places in the country and because of that, our investor base is kind of all over. I also think that it's so important to meet with folks who specifically need to allocate capital. So, if you can get meetings with them and establish a relationship, and you have that touch point of connection, someone who's worked with them before can vouch for them because my number one thing is finding value-aligned partners. I really want folks who are in it for the long haul who want long-term relationships, that we have fair terms, and that we really are focused on being really ethical operators, and providing great returns for investors. That is the number one goal. And to operate with extreme integrity and to just be completely transparent and really good to our residents, really good to the communities that we are buying and acquiring and operating because we're not in it for fix and flip and doing harm to a community. We really want to do well by communities, we really want to do well by investors and we believe that that's the best way to provide those good returns.

WS: And that's what they're going to tell their buddies or their friends about you. So, what are some of the, or maybe one or two of the most important metrics that you track? That can be personal or professional, either way you want to take that. What are some of the most important things that you track?

AM: Within the company, we're tracking our internal metrics but I also think it's really important beyond that to have, instead of the quantitative metrics but I think the qualitative too. How's your team doing? And how's the temperature of your team? Are they excited? Are they motivated? Are they ready and fired up and being really transparent when you notice a shift? Because it's pretty obvious when you run a company, when you're like, hey, this person was super in last week, what's going on this week? And where are we at? And oftentimes, it's a family thing, actually. So taking temperature on that's really important. On a personal note, I think it's really important for me to just have time to be focused on the family. I think that's been something that I think balancing the company, you're kind of always a little distracted. You're always a little bit, you're thinking about that all the time, like 24/7, you live, breathe and sleep it. So, I think really taking time to have dedicated time for the family has been a big thing for me personally. That means like, we have dinner together. I know it sounds really cliche but that's kind of what we focus on. At 6pm, we all eat dinner together. I may have to work again, you know, and that's usually what happens. I put our son to bed, and then I'm back to work. But you know, we have that time together as a family, which I think is really important.

WS: I appreciate that focus. The listeners have heard a couple of shows recently where we've talked about that with a couple of people. It's so important. If you lose your family, what was the purpose of all this? People say, I'm working so hard, I'm doing it for my family. But you never see your family. Think through that a little bit. Why are you really doing it? Sometimes, it does take that. It did for me. I'd spend a long time so focused. I missed a lot of family time. But that could not keep going, right? I did have to make a switch. So, I just appreciate you elaborating on that. Don't lose focus of what's most important. Keep the main thing, the main thing. What are some habits, Alex, that you are disciplined about that have produced the highest return for you?

AM: I exercise every day. I think that really helps. I get up early, usually at 5:30 and then I exercise. On the weeks that I'm able to do that every day, it's like the mental space that I'm in and how well I feel like things are going are just so different. And then, the days that I don't do that, making sure that I have at least some quiet time during the day at some point. It's usually just 15 minutes but the introvert in me needs to have a 15-minute space where I can just have a moment to reset. Those things, I think, have really improved just the energy and ability to execute. Those, I think, are really important. Each person will have their own, maybe 15 minutes of social time is what someone needs who's extroverted. I certainly have friends who are that way, who are like, if I don't talk to somebody else outside of my family or my company, I'm gonna lose it. But for me, I need the 15 minutes of quiet and I need time to exercise and get up early.

WS: What's the number one thing that's contributed to your success?

AM: I think the support network that I have and my faith network. I think that's been huge because you are your own entity but it takes a mountain behind you to really keep it stable and moving forward. I couldn't do this without having a supportive community and a supportive family because this requires a lot of travel, requires a lot of effort, and requires a lot of intentional time working on the business. So, if I didn't have that support behind me saying, you can do this for really, really, I'll care for whatever you need, I couldn't, I couldn't do it without them. And then having strong faith systems saying, this is really, really for more than just myself and more than just my company. It's like, I want to build a really good company that just has good integrity and operates with great values. So, I think those are the two.

WS: And how do you like to give back?

AM: There's a few different ways that we try and very intentionally to give back. We have several organizations that we work with, have worked with as a family for a long period of time, in individual families that are more missionaries and local in their communities. And that's part of why I really want to grow and scale. I think the giveback is huge. I love the idea of radical generosity and doing transformative giving. I think that looks different at each stage of where you're able to give. But for us, I think building a platform that is able to sustain consistent radical giving is what we want to do. I think that allows you to have more than just *you* as the center of anything. I think that's where you see the demise of most people, if it just becomes about you. There's no reason, you'll be on a very lonely path. So, we try to be radically generous both with our local community and then there's a few folks that we work with that are local missionaries across the US and really try to support them.

WS: Love that. Appreciate you sharing that. I think it's a myth to think that if it's just about me that I'm going to have joy forever, right? It's so short-lived, quick burnout on things like that. Yeah, I love the focus on that. I loved what you said there too, do sustained radical giving. I like that, wrote that down. I like that a lot.

But Alex, a pleasure to meet you and have you on the show. I enjoyed the interview conversation so much and what you've accomplished, your focus, obviously building a business that's so ethical, so upstanding. I just appreciate that. But really, your measurable objectives, being clear about them, the outcomes, and the outcome of the employees and you're meeting cadences. Each person, how you did that and walking into the process, even interns and meetings and what your day looks like now compared to maybe what you want it to look like, some of those things. Even to how you calculate reserves. I just think that's so helpful to the listeners to hear somebody that's experienced like yourself to think through that. How are they looking at those deals now especially in our market right now. I mean, are they ready to withstand a small storm or a big storm? So, just grateful for that, and just your heart to give as well and think long term about giving.
How can the listeners get in touch with you and learn more about you?

AM: Yeah, anyone who wants to reach out, I love meeting new people and we love welcoming more people into our fold. So, GreywhaleCapital.com is a great way to connect. Greywhale is spelled with an E. Then, also I'm somewhat active on Twitter, trying to get more active, but it's Alexandra C. Moore on Twitter. So, either one of those is great. If you DM me on Twitter, I usually am fairly responsive.

[END OF INTERVIEW]

[OUTRO]

WS:

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