

EPISODE 1439

[INTRODUCTION]

Johannes Urpelainen (JU): I would also say if you look at the sustainability and also that resilience side of multifamily, it would be things like energy efficiency, such as designing these things in a way that keeps the interior space cool during the summer and warm during the winter, installing things like solar panels, solar water heating, can be a very good base. You will also want to look into appliances, and how energy efficient those are, which can save you a lot of money down the road.

Whitney Sewell (WS): This your daily real estate syndication show. I'm your host, Whitney Sewell. Well, today and tomorrow, we're going to discuss some things that we've not talked about too many times, if at all, on the show before. And, some things that are happening in our industry that I want you to be aware of, right? Because I think these things are going to affect us whether you are active or passive, over the next few years, it is going to change the way we do business potentially.

And our guest today is Johannes Urpelainen. And he's an experienced real estate and technology investor with a nationwide portfolio in numerous asset classes. He's general partner in numerous units as well. But also, he's an expert in 3d printing technology. And he's been a part of developing your 44-unit build-to-rent community in Huston, Texas, using 3d printing. So it's a very interesting technology. And I want to go watch some videos of this myself and learn some more about how this functions, because I do believe it's going to grow and it's going to be something potentially that is going to change the way we develop and build. And he's going to dive into that in some detail.

But he's also going to talk about climate change and what to expect, you know, moving forward in that in different metros or different markets, right, and how we should be thinking through that, and even where to find some information on that. And we're gonna dive into 3d printing, and he's going to talk about what that looks like as an operator to some degree, and

just technology moving forward and how that's going to change our business. I think you're going to find the show very interesting.

[INTERVIEW]

WS: Johannes, welcome to the show, honored to have you on and honored to be able to do maybe a couple of segments here with you and dive into a couple of your superpowers or your specialties things that you are a master in and so that's what we want to do right and provide as much value to the listeners as possible. And I know you're going to do that today. Give us a little about your real estate background and your focus right now and we're gonna jump in.

Johannes Urpelainen (JU): Absolutely. First of all, thanks for having me on the show. I got into real estate really through passive investing. I started passive investing around 2019. I was looking at stock market valuations and having some difficulty understanding why people are paying so much money for so little income through this publicly traded equities. I started investing both as an active investor doing small single-family investing and syndications and did a lot better on the syndication side as a passive investor. I decided to expand that, been growing my portfolio over the past three years, investing into multifamily, self-storage, industrial and increasingly hospitality. So that's how I got started with this. And about eight, nine months ago, I also decided to go active myself. I started my real estate business, which is called Oasis Equities, doing some multifamily deals and hospitality acquisitions as well.

WS: Awesome. Wow. It's, it's interesting. It's interesting to me, though, also, how many people know exactly what you just said about the stock market and even see that, but they're still so afraid to do something different? Yeah. I see it so often. Go ahead.

JU: Absolutely. I think there is something about syndications that until you actually get into them and understand them, people are wondering, is this a scam? Or is it a Ponzi scheme? Are you gonna lose all of your money? To look at those, you know, long placement memoranda and have no idea what they mean? It just a scary thought before you actually do it a few times, and then you realize it's a perfectly normal thing.

WS: I mean, you invest in the stock market, there's plenty of documents that go along with that as well. Right. But typically, it is just hit accept, accept, accept, right? And unfortunately, you know, you don't you don't read those hardly ever either, right? Or who does? Unfortunately. But that's so true what you said and you hear that word, syndication, right? And right then, people are scared often, or just, you know, "Mom and Dad never told me about this thing. So it must not be real, right? Or it has to be a scam." Now, I appreciate that.

And so speak to you know, maybe your first syndication. How did you gain comfort in investing in your first syndication passively?

JU: Yeah, when I made my first investment, I wasn't really not very educated about real estate back then. I stumbled on it online, I just found a syndication on Google and did a little bit of study. And what I found very attractive about it was that I was actually able to understand what I was investing in and how it works. That is rent projections, that expenses, discuss the financing, and that is very different from buying an index fund where you're buying everything right?

So I thought this makes a lot of sense. Did a little bit of research on the company behind the syndication, they seemed legit. So I decided to dial, try it. I invested \$50,000. That was a bit before the Covid-19 pandemic started so initially, it was scary. I thought, "What have I done with my money?" But then as you know, things turned around pretty quickly. And I've actually done really well with that investment, even though it had office, hotels, and multifamily.

WS: Good for you. Good for you. You're taking that that scary leap. Right?

JU: Exactly.

WS: But not so scary because you did some research and did some homework and learn to understand what you're investing in. Right? So all right, so tell us a little bit more now about this specific type of real estate now, or maybe some specific things that you're focused on, you

know, in even in your own operation, such as you've now started to, you know, you've become an active operator yourself?

JU: Absolutely. So on the passive side, I'm very diversified, of the multifamily, self-storage, industrial hotels. But on the active side, I've recently focused mostly on hospitality. So I have a few short-term rentals that I've got running in West Virginia. And I have hotels under contract in West Virginia and Arkansas.

And the reason why I got into this asset class on the active side was that when I made my investments on the multifamily side, cash flow was a challenge. It's hard to find cash flowing multifamily assets, maybe it'll get a bit better now that the prices might be cooling off a little bit. But at least last year, I just couldn't find anything that was cash flowing very well, on the short-term rental side that scale is the problem, because you're still stuck in the single-family home investing track, where each one of those assets is a real headache. So I was thinking maybe hotels would kind of solve those two problems at the same time. So that's how I got in hospitality.

WS: Interesting. Okay, so tell me about the markets you selected as well, West Virginia, Arkansas, how did you pick this?

JU: Yeah, so I did not have an initial idea that "Okay, I'm definitely going to do West Virginia." In fact, that was probably quite far from my mind when I initially started. It's not a state that's known for, you know, booming real estate business. But I was talking to different brokers, I was just reviewing some listings on the plant and all that. And I found good assets. So what's great about both West Virginia and Arkansas is that real estate is still pretty cheap, unlike some other states, and you still have some good markets for tourism, for vacations, and destination markets, national parks, and so on. So I went in, did some research, made offers and was able to get a few of these things up and running.

WS: Wow, and speak to the type of asset class that you went into, like hotels, some hospitality. I guess, why focus on that? Why not just wait on a multifamily deal? Maybe speak a little

deeper into, you know, that specific asset class and why you said, you know what, I'm going to move forward in that.

JU: Yeah. So the thing that I found attractive about hospitality is that unlike multifamily, hospitality has been a buyers market now for a few years, because people really got scared after what happened with some hotels in COVID-19. So multifamily, as you know, has been going to red hot now for for a few years. And so as a result, the prices have gone up a lot, the cap rates have compressed, that hasn't happened in hospitality, quite the opposite in many ways the cap rates have actually gone up. And there's a lot of inventory available. So the way I think of it is that multifamily, you have to underwrite a lot of properties. And to get one that makes sense. When you do get it then after that it's fairly straightforward. You do renovations, you find a property manager and all that. With hotels, it's the opposite, it's fairly easy to find good things to buy. But then you have to work very hard after you actually buy the thing to get things going find operators, do all the design, the branding, and all that. But for me, the cashflow of hotels is just very attractive. And that's why I'm really going to continue working with that asset class.

WS: Awesome. No, that's great. I just always wonder why some choose some asset classes over the others and how you move forward or how you think think through that. I know some of our listeners are wondering that as well, even if some of them are contemplating different asset classes. I know is something that you think through and we briefly discussed, like the sustainability piece of in multifamily in different asset classes, speak to that a little bit like what is the importance of sustainability? What does that mean?

JU: Yeah, absolutely. And this is actually has played an important role in in going active. So one thing I should mention, first of all, is that my very kind of initial active effort was an accident. So I had made an investment, a venture capital investment, in a company that 3D print housing. So they use 3D printers to produce rental units, duplexes, specifically. I made a small investment as a venture capitalist very early stage company and went to Houston to meet the CEO. And the CEO asked me to consult for them, to help them with developing the business because I had this sustainability background, and it's a big part of their selling point.

So what sustainability really means is this idea that we are facing all these environmental problems right now, most notably, our changing climate. So we have these extreme weather events, we have sea level rise, we have droughts, we have extreme heat. And that's something that is starting to have an impact on real estate. So if you look at, for example, the property insurance rates in coastal Texas, Florida today, it is very expensive compared to what it used to be. And that's because of this natural disasters.

And so we need to find ways to make our buildings more resilient, more robust to these changes. On the other side, we also have opportunities to reduce our expenses. So increasingly, solar power, for example, is cheaper than it used to be. It's very eco-friendly. But it's also quite affordable these days, so many people are using that to reduce their electricity bill, which again, can be a big deal. If you are, let's say, in the south, and you have very high air conditioning bills, you can really reduce your expenses with this. And that's something that I do as part of my day job. I'm a professor at Johns Hopkins University, teaching energy issues there. So I've tried to brought some of that expertise into my real estate, University, as well.

WS: Interesting, 3D printing, I know we're gonna get into that a little bit. It's not something I'm very familiar with. However, I do have a friend that has a small one at home, and it's pretty cool. So, I'm looking forward to hearing more about how this is going to affect your multifamily or just real estate, right, in general, as we dive into that.

So as we're just kind of skimming the surface of sustainability right now, how do residents think about you know, sustainability? How is this gonna affect them? And then, you know, maybe we'll dive into this a little further. But what are the residents sanker or, you know, any studies or anything on there.

JU: So it really depends on where you are in the country. There are some parts of the country where this is becoming fairly mainstream, and people are concerned about their energy impact, and all that. But those are often not the places where most multifamily investors are. So look at the stage where sustainability is a big deal, California. But California is a difficult place to invest because of the extremely high costs, and all kinds of tenant-friendly laws and all that. It's much

less of I would say something that some tenant mind's in Texas or Florida today, but I think it's this is also changing. You'll see a big difference between younger people and older people, for example. So millennials and Gen Z and all that are more aware of these issues than let's say the baby boomers.

WS: Speak to what a sustainable multifamily development looks like. I guess talk through that a little bit. I think that it helps us as we move forward.

JU: Absolutely. And the first thing I would say about that, is that multifamily is itself inherently sustainable, right? Because you are kind of packing a lot of density in those buildings. So if you compare how much land how many resources, how much commuting do you need, if you have 1,000 people living in multifamily units, as opposed to single-family homes in a suburban kind of subdivision? It's a big difference. Right? So that is that is the first thing.

But today, I would also say if you look at the sustainability, and also that resilience side of multifamily, it would be things like energy efficiency, such as designing these things in a way that keeps the interior space cool during the summer and warm during the winter, installing things like solar panels, solar water heating, can be very good base, you will also want to look into appliances, how energy efficient those are, that can save you a lot of money down the road. So that's it's a combination of just multifamily, being inherently sustainable because of the density, but also then using the appropriate technologies that you use for multifamily.

WS: Interesting, any other ways that maybe we you know, during a development and we're gonna get into some 3D printing stuff, but maybe you could give us a little tidbit here. What is 3d printing? You know, what's the role that it's going to play in this as well?

JU: Yeah, so 3D printing is really from a sustainability perspective reduces the environmental impact of actually building those homes. So think of traditional construction, it takes many months. It means a lot of crews coming in and out lots of material coming in and out. It takes months and months and all that results in transportation emissions. It results in all kinds of other processed emissions. The materials often have to come from very far.

But if you look at 3D printing, you bring in this big tent on the site, you bring in the 3D printer, which is a huge machine, not like your friend's little 3D printer, it's a huge 3D printer, cost a million dollar, just the printer itself. And then within a week, you have the structure of the house ready. You have three people, you have a printer. And then in a week, you have the house ready. The materials are often publicly local. So our first development with family communities is in the Houston area and everything we need to build their homes themselves is within one hour's drive.

WS: Wow. In one week, the home is complete. What's it made out of? I better I don't know what this looks like. I'm trying to visualize this in my, in my mind.

JU: Absolutely. So let me walk you through the whole kind of sequence of events. The first of course, you need to do site work. And 3D printing doesn't help with that, right? You have to have all the infrastructure on everything ready that's done old school, very traditional techniques. The key thing where we save months of time, and 10s, or hundreds of 1000s of dollars is the structure, right? So you're kind of like layering concrete. It's concrete or cement homes, at least with our technology, and you're just layering them one layer at a time. But what is really cool about that is that you are layering it in a way that makes everything else very easy.

So for example, you have all the spaces ready for electric, plumbing, and everything there. So once you have the structure, all you need to do is go and add electricity, plumbing, all of that, and the appliances, the finishes. And that's it today, I would say they still look a bit different from traditional construction, but not so much anymore. You have these homes, actually, for example, in Austin, there is a 3D printed community that sold at market price, and people have been very happy with it.

WS: So it's actually pouring concrete. Is that right?

JU: Correct.

WS: Okay, well, that's interesting, you know, because my friends 3D printer, it just looks like plastic. So I was just trying to figure that out. So why don't we jump into what is 3D printing? And let's talk about that a little bit. Because we're talking about it. I want the listener, the listeners are thinking through this, and maybe they've had they have a friend that's, you know, done the same thing or making things with it. They're trying to figure this out? What is 3D printing? And let's dive in.

JU: Yeah, absolutely. The way you can think of 3D printing is it's really just a technology that takes the basic idea of printing, you have this machine that spits out paper in kind of traditional evidence quality 2D printing, but you know, just traditional printer. But then instead of just having that for paper, or graphics or something like that, you can have that for almost anything, you can print things, if you decide the printer the right way, you can print almost anything, you can print different machines, you can print out different materials, you can print out homes now.

And what it does is because it kind of streamlines the process, you can do things a lot faster, and a lot lower cost than with traditional construction. Traditional construction, as you know very well as a multifamily entrepreneur is a very complicated process. You've got different people with different expertise, everything needs to be coordinated, everything is very expensive, lots of time, and everything with 3D printing, a big chunk of that is done with this one a machine producing a certain design. It's of course not nearly as customizable, as traditional stick built, where if you have a lot of money, you can do almost anything. But if you're looking for kind of high quality, durable housing for middle class families, 3D printing is a very promising technology for that.

WS: Wow. So will the walls, the entire structure be concrete? Is that what it will be?

JU: I mean, you can then if you want, you can add a roof that's metal or shingles, or whatever, you will add the flooring and all those finishes. But yes, the basic structure is concrete.

WS: Okay. Well speak to, you know how 3D printing is going to change, you know, the American housing market or make it more profitable or less, or how do you see that working out?

JU: First of all, we need to remember that this country has a huge housing shortage, right? So the real reason why multifamily is such a great investment is not just because the interest rates went down for a little while, or because Millennials like to rent or anything like that. The real reason is that we need something like four to 5 million new housing units. And those are not coming because of the cost. They are just so expensive to build today.

And what 3D printing does is it allows us to build faster and at a lower cost. So the way 3D printing is going to change American way less than that housing is just going to make it a lot more affordable than it used to be. So if you think of building a house today in let's say, Texas, where we work in Houston area can cost \$250,000, maybe even more, if you put to that \$450,000, that would be a complete game changer for many families that are not making good over \$300,000 a year.

WS: Okay. Speak to who's going to own this 3D printer? I was thinking about the developer that's gonna go in and make the houses more affordable and more profitable, maybe in multifamily, whatever that that's gonna look like, but who owns that machine? Is that the developer? Are they gonna hire somebody to come in? And do this? Are they going to own it themselves? What does that look like, as you see this growing, you know, over the next many years, probably.

JU: There's a few different ways to do this. So the way we would do it, the family communities is we would buy the printer, and then we would have a licensing agreement with the technology provider, with a company called mod bots, that kind of allows us to use it in certain ways. And the combination of ownership, and licensing, the contractor or developer that works with us would then actually be an equity partner in our company.

So they would be partly compensated with cash, like you typically do with General Contractor, but they would also be compensated with equity, which means that we need to raise less capital to get this going up, they get this long term income stream from doing this. And this, by the way, is a very common trick in Silicon Valley, right? So if you are investing in a tech company, there's often no money moving, except from the university operator, and then the operator gives you equity. And over time you start making money instead of going to real estate where we typically give make an equity investment and expect distributions in like six to 12 months.

WS: Wow. Okay, that's interesting. I just wondered what that's going to look like, as we're doing a few developments as well, potentially, more in the future. But mostly partnering with a developer that's already established in the market. Right. But this is interesting, you know, as we think through Hey, potentially, it could be a game changer, right? If you can build units that much faster.

And, you know, and I'm sure the, you know, 3D printing capabilities are only going to grow so quickly, right? What do you see that looking like, I mean, the capabilities that you have now to do with 3D printing and building a house or an apartment building, you know, a year from now or five years from now, how do you see that changing?

JU: So I think we are right now, at the time, kind of at the cusp of this becoming a commercially viable thing. Just three, five years ago, it was still laboratories and demonstrations and pilots. But now we have proof of concept. We have these in Austin, the 3d printing housing in New York, State in Virginia, where I think both of us actually live. So this is a real thing.

Now, it's still obviously not yet where it needs to be to produce 5 million units or anything like that. But so I think it's going to just get better over time we are at the kind of thing of Okay, so here's one way to think about it. Think of when the first mobile phones came on their mass market, right, maybe we are there now it's working, it's good, but it's nowhere near where an iPhone is today. So I think we're gonna do much better in the next five to 10 years.

Technologies keep evolving and we can do more things but just as one type but everything from a very large single-family house, maybe the multifamily maybe we can start printing like apartment complexes.

WS: Yeah, wow. Okay. Now that's exciting to think through that I want to look it up on YouTube, maybe watch some videos of this, this machine working and see what that looks like. Exactly. So I have a little better understanding.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today, I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about the Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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