EPISODE 1440

[INTRODUCTION]

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Whitney Sewell (WS): This is your daily real estate syndication Show. I'm your host, Whitney Sewell. Today, our guest, Johannes Urpelainen, we continue our conversation around numerous things. And I feel like you need to start being aware of, and we're gonna dive in today around climate change, he is an expert in climate change. And we're going to talk about 3D printing some more, and how those things are going to affect us as active and passive operators. I know you're going to enjoy the show today.

[INTERVIEW]

WS: Johannes is welcome to the show. So let's circle back a little bit. I know you mentioned earlier, you know, climate change and some of those things and what that looks like. And so, maybe you can speak to the impact of climate change and on the real estate market, let's dive in there a little bit. And maybe we'll bring the 3D stuff full circle again. But what does that mean? How is that going to affect the real estate market? And what do you see, you know, over the next few years?

Johannes Urpelainen (JU): I think we can break this question in two parts. One is the impact of the natural change itself. So our changing climate, what is that impact? I think it has a few impacts. One is that it changes the markets that are attractive. So today, for example, we've seen Arizona has been an amazing market over the past 10 years, with huge appreciation and everything. But with the water cost increasing, you know, prior area like Arizona, that might not be sustainable moving forward. So as a result of that people are now looking for markets where water availability is more.

Another one is sea level rise. So again, if you think of some areas of let's say, Florida, for example, where you have these low lying coastal communities, what is going to happen property values, there was a recent study being that was actually looking at the Miami real estate market and what they found was that those areas that are low lying right there where the water levels are increasing, or not seeing nearly the same pace of appreciation, and those that are kind of like elevated, but the risk is much lower. So this is something that is going to have an impact again, on where do we invest.

And some people are talking, for example, now about the possible reverse migration, people might start moving to markets like Michigan, because all these the weather is not nearly as extreme during the summer, the water resources are very plentiful. So those could become a lot more attractive markets down the road. So that's one side of it. The other side is policy. So depending on the state, there's going to be different policies to deal with climate change.

Again, this depends a lot on the state. So some of the blue states are very enthusiastic about climate change. And in California, for example, investing in real estate looks very different now, because of all kinds of mandates, regulations, incentives, and all that others, the more sort of red states less so if you go to say Mississippi, for example, you might see less enthusiasm for this today. But the ones that I find really interesting are the purple states that are kind of like on the balance. So the Carolina, for example, very good real estate markets, lots of growing population and everything. But also, there was a lot of people that were concerned about climate change. So they give credits for clean energy, they are changing their policies, the flood insurance policies, they climate change bonds seriously. So that policy impact those is also coming into those states.

WS: Interesting to think through that as well. How should we prepare for climate change? As you know, real estate investors, what does that look like?

JU: So I think the things to do -- the most important one really, is to look into the markets that you are investing in. So I made it reasonably, for example, an investment in a very large hospitality development in Florida. And this was a passive interest as a passive investor. And the sponsor told me that I was the only investor who asked about sea level rise. And turned out this was in a place where there's most likely not going to be a lot of risk over the next 20 years or so. But I was thinking about it. So you get these interests was interesting in Florida without asking about sea level rise, they could lose all of their money.

If you go on that YouTube, and you check out you can find videos of entire homes being washed away by the ocean, in some of these places. So I think looking into these impacts, and taking them kind of in consideration when you're making your investment is is the number one and the other one is to look for those opportunities.

So again, if you think of, for example, investing in the Midwest, I'm always keeping an eye on Michigan and Ohio because those are very good natural resources. They're not places that are going to hit very hard by climate change anytime soon. And they have some very good markets like Columbus, Ohio, for example. So I would certainly look into those as possible investments moving forward.

WS: Are there some places we can find data or information to educate ourselves a little bit around this as we're looking at markets, let's say like Florida, like you talked about, okay, there's homes that have been completely washed away? How could we educate ourselves to figure out okay, the places that we should avoid or or via okay with you know, when thinking about that?

JU: Yeah. So I think first of all, if you just go online and google climate risk, you can find a lot of basically modeling studies that will get, for example, the level of risk by zip code. And if you're in a coastal area, or next door river or something, you can do flood risk analysis tools are quite sophisticated today. So for example, we are doing this hospitality investing in West Virginia, and we have a property that's actually technically in a flood zone back in the old days that would have made hammered with all kinds of insurance. But today, they literally have these tools that tell you that particular building as this risk under these assumptions, so you're gonna get very detailed information on those risks today.

WS: Okay. What about any other risks around climate change that we should be thinking about that maybe we wouldn't even know to ask about?

JU: That is actually a really interesting question. I think most people who are following this area and all the basic ones, sea level rise, extreme heat, storms, and so on. But I would say that the one thing that really we need to look into is the impact of kind of all of these together on the kind of economic development of different communities. So again, if you think of a place like, let's take Florida, so there's some parts of Florida that are actually not that vulnerable to climate change, and thinking like Orlando, or something like that, they're probably going to do quite well. And they might actually benefit from this, if there is going to within Florida more move into those areas, from the ones that are going to be very heavily hit, which I think are going to be the south and coastal parts of Florida.

So not just thinking about specific impact on specific property. But where do people want to live? So far, we see the Americans clearly don't like snow, they're moving from the cold areas to the hot areas. But if the temperatures keep increasing at the rate they have recently, at some point living in some of those places, it's going to be very hot, and very humid. And as a result, we might see changes in the migration patterns.

WS: It's interesting that we don't like the cold. So we moved to the heat, and it's gonna get hotter, we move back. So it'd be interesting to see how that works out. But what about technology? And you know, how it's going to be used to improve just the profitability and hospitality or even in climate change, and things like that, how it's gonna affect that?

JU: Yeah, so I think there's going to be a number of things, one of them is certainly is the electricity and energy use. So if you're in a in a very hot area, then obviously air conditioning is going to be a very big one. And as a result of better air conditioners, more smart technology that's going to regulate the temperature more efficiently, and clean electricity generation, like solar panels.

So in hospitality, for example, electricity is a huge problem, right? Because you don't really get to manage it yourself. And the tenant doesn't pay the bills. It's the guests and the guests when they are in a hotel. How much do you think they care about your electricity bill? And they are staying at your property? Not at all right. So it's, it's really, really challenging. So you kind of have technologists to minimize that and manage that. Just to give you one example, a friend of mine is a very experienced kind of consultant. He does a finds energy solutions for commercial real estate. And he said that today, water heating with solar, anywhere in the 48 states contiguous 48 in the United States is home run, that you should use solar power to water heating, maybe not in Alaska, that might still be a bit tricky. But everywhere else, he says it always works, it saves you money. So that's something similar, it depends on where you are both installation and the policies.

So if you're in the Carolinas, great, if you're in Arizona, great, if you are in Maine, I don't know about that. So there's gonna be a lot of different solutions. And I think it's gonna be exciting to see a real service industry grow into this and start looking for ways to add value.

WS: Do you see solar as something that's going to make sense in multifamily? Or, you know, just the scalability of that, and what does that look like?

JU: Yes, absolutely. So if you think of solar power and multifamily, first of all, the fact that you have so many units is a big advantage, because it gives you economies of scale. The second benefit there is that there's always going to be some expense in the common areas, right. So you've got corridors, you've got offices, things like that, that's where you can literally directly save money. If you're in a booth area, with the right policies and lots of sun exposure. You can save a lot of money with those but you can also help your tenants save money.

So even if the tenants are responsible for their own utilities as this case in some wildtype families, you can tell them that if you come here, your utility bill is going to be a lot lower and if you have some kind of a bill back system, then it just saves everybody quite a bit of money. So I would expect those solar technologies really to take off in multifamily. In areas where there was a lot of sunshine, and they are they're just going to fundamentals make sense.

WS: Do you see that as like something that's going to take over the roofs? Or, you know, just think about, you know, there's a lot a lot of properties, there's no like, a lot of extra land, right, you know, where you can put up solar panels, things like that, is that something you would see just covering roofs and, you know, just thinking about how much so how many solar panels we would need to, to justify how much power we need for whatever it is, you know, as far as the supplying for that many units?

JU: Yeah, so the rules are basically the first place that you would look for, they might not be enough, again, depending on electricity consumption, all that, in some places, they've got this very interesting new program called Community Solar, where the apartment building can kind of like buy a small share of a solar park somewhere else, and then have kind of direct electricity come from whatever that means.

The grid is a system and all this kind of notional in a way, nonetheless. So if you don't have enough roof space, you can still invest in solar by doing that. And I know some companies that are doing that. They're always looking for multifamily operators between they can have a contract so that they can save them some electricity bills, and of course, themselves get compensated for their efforts.

WS: Wow. Yeah, I didn't even know that was the thing that you could invest our partner in solar at a different location, right, then then on your own. Anyway, you learn about that, specifically as an operator?

JU: Yeah. So I think the good way to do that would be to check out some of these companies. So for example, one that I know that is doing this, in some states is called Arcadia power. So just check out their website, learn about see if they have any programs. I know they've got some programs in Virginia, New York, Colorado, for example. So where you can learn about these opportunities, and I'm always happy to talk to any fellow real estate entrepreneurs about how to get this going.

WS: Awesome. Well, I guess let's bring it full circle now and bring back in the 3D printing stuff as we think through like you're talking about climate change, how are those things going to be connected? Or are they are you know, is 3dDprinting going to help us to build better units that may reduce our insurance rates or, you know, be better built, you know, in areas that, hey, you know, maybe there's a higher risk for that storm or sea level rise, or whatever it may be, or extreme heat even?

JU: I think so. So the technology that we use, it does make the concrete more durable than going to traditional techniques for that. So the homes that they build should last longer, which means that they're going to have less maintenance, and they're going to be less vulnerable to storms, hurricanes, and so on.

Now, this is, of course, always going to depend on the specific context we have working in Texas, where that kind of resilience is very valuable. And we do hope that over time, insurance companies will recognize that these are more robust factors that will take time. So insurance companies are not known for their bold embrace of new technologies. But I would imagine that in the next five to 10 years, as they gather more data, and they learn that these tractors are really more robust, they will offer better rates for operators will use them.

WS: Yeah, that's gonna be neat to see that happen over the next number of years, for sure. You know, Johannes, what about if you can look back now, you know, as you've learned about real estate and passive investing, and now becoming an operator, obviously, you're bought into the real estate thing, right? I mean, you invested passively and even became active. If you could look back and talk to yourself about real estate 10 years ago, what would you say?

JU: That is a really, really interesting question. I would say that, first of all, skip the various more deals because they're the hassle is just a rocket, right? There's not a lot of money in buying, you know, a single family home, unless you have a crystal ball and you're buying, you know, the exactly the right place into the nine. Okay, sure. There's a lot of money in that.

But generally speaking, skip the very small deals, but at the same time, I think there is there's just something about once you learn how to do these deals, how to work for them, how they evaluate them, it almost becomes like a lifestyle. So I don't have any plans of quitting my faculty job of becoming a full time real estate entrepreneur, it's not a lifestyle, I would want to be doing a 24/7 But I'm always looking for deals. I'm always looking for opportunities. And once you get the hang of it and get used to the way it works, it is a great way you know, like there's always good deals to be had and you've just picked them here on there. And I think if you have patience over time, it's really gonna gonna pay off.

WS: To skip the small deals. That's such a limiting belief often right? It's kind of like investing out of the stock market? So what about any predictions that you have over the next, say, six to 12 months in the real estate market, and maybe how that's changing how you're looking at deals,

JU: I think it's already changing quite a bit. So I started my active carrier about seven to eight months ago, right. So like late 2122. Back then I just didn't find any deals, there was nothing available. And the seller has never negotiated on anything. There was always five offers on the first day when they listed it or gave it to a broker or something. Today, it's very different.

So now you've got all these deals out there with price reductions and everything. So I think we are moving into a buyers market. And I think the next six to 12 months are a great time to buy. As long as you have the patience of the time to wait, you don't need to be to sell right away, because the interest rates are high, the banks are getting a bit cautious and all that. But if you're a long term investor, you have a 10, 20, 30 year time horizon. I think we have another buying opportunity here, just like we had in 2020 and early 2021.

WS: Okay, that's good to know. And what about preparing for that potential downturn? When you're looking at a deal now? Or maybe you're going to buy something? Or maybe even as you're investing passively? What do you like to see? And maybe it's in the underwriting or an emergency fund? Or what do you like to see to say, okay, maybe you know, something happens, and then something else happens? How are we prepared for that moving forward?

JU: Of course, the first and most important thing is the operator's experience. So you have to work with experienced sponsors who have seen this before. If you have somebody who's only done deals in 2021, it doesn't exactly prepare you for a downturn, right? Because it's just a boom, boom time. So that's number one.

In terms of more specific things, looking at the underwriting, one is certainly their financing. So for example, if you have a bridge loan, do you have extensions, you have a rate cap? Do you have ways to deal with possible problems when you are trying to refinance the property? Do you have reserves? What is the break even occupancy? Or unlikely way? If you're looking at hospitality, just any ways to keep the cash flow going? Are you prepared for that, and just personally, I've adjusted down my return expectations.

You know, a year ago, everybody was getting spoiled with this 20, 25% Internal Rate of Return deals, those are getting rare now. And we just all I think needs to accept that the next few years are going to be in the short run a bit more challenging. But in the long run, this could be the big opportunity.

WS: I'm seeing that across the board from all kinds of operators, including us. I mean, the lowering that expectation, right, you know, as we as we move forward, it's hard, I think for many investors, including us, you know, as you think about what it was, like just a year ago, or, you know, two years ago, but I think that's real. And I appreciate you, you sharing that, what about a way that you've recently improved your business on the active side, that we can also applaud our business?

JU: I think on the active side, the one thing that I've done that's really helped me a lot is getting a lot more creative, both with equity, and financing. So instead of just going out there and saying, here's the syndication or something, or going to a bank, I've found a private universities, they can bet positions in the deals, I designed the acquisition so that we're going to slowly make the renovations and all that not in a crazy risky way, like everything from cash flow, but just buying a little more time for us. And these have allowed us to do deals that otherwise would have been impossible to make work. So just getting creative and finding new ways to get these deals done has been has been very helpful in my business.

WS: What about your best source for meeting new investors right now?

JU: I would say that I'm finding most of my new investors through LinkedIn, if you think of sort of who's joining the investor club, or who's asking about possible investments, LinkedIn has been my best route for that.

WS: Give me a technique that you're using on LinkedIn to do that.

JU: What I found is that if you post things that are, first of all relevant and show some knowledge and expertise, but also have kind of a story to them, that are kind of somehow exciting or engaging, those are the things that attract people, if it's just a kind of a boring explanation of a cap rate or something. People don't engage and they don't react, if it's just a story of personal how great you're doing or how terrible you're doing. That isn't going to send the right it's that combination of educate, but also entertain and engage.

WS: I think that's wise. What about what are some of the most important metrics that you track and that could be personally professionally it could be how many times you get up on time, it could be how many deals you're underwriting what are those things for you?

JU: Yeah, so because I do a lot of hospitality, that underwriting part is less of a problem. If I underwrite something, there's a decent chance I'll make an offer, which is kind of funny because it's really the opposite of multifamily. In many ways, the things that I keep very close track of, is really, what is the end kind of financial outcome of that underwriting?

So whenever I start underwriting a hospitality property, it changes so many times between like, you know, the first step and actually closing and even after that, so just keeping very closely on what are the expenses looking like, what are the renovations, we need to do staging, furnishing? How is the market changing, that's a big one on the on the business side, or personal side, I think the biggest challenge for me has been just cash flow management personally.

So when I was a passive investor, it is fairly easy, I just use my line of credit to put $50,000 in a deal, and then I pay off my line of credit. But for example, right now, with three hotels, closing and many more opportunities on my desk, just making sure that they don't run out of personal funds, this is going to be a big one. So I have very precise spreadsheets on when I expect to get this payment, and when do I need to pay, make this payment and so on.

WS: What about some habits that you are disciplined about that have produced the highest return for you?

JU: I would say that the things that have really helped me a lot is one of them is I overtime, learn to say no to a preface. So I myself on my day job side, I'm unfortunately in a very difficult intersection in two communities where people do a lot of free, uncompensated, and often honestly, useless work, academia, Washington, DC.

So both of these are communities where people do a lot of things for no reason at all, except to show their face. And so I've learned how to navigate that, such as saying no to almost everything, and then spending my time on more valuable things. I think that's a big one. And the second one that's really, I would say, helped me a lot is just learning to wake up early in the morning. It's not something that initially it came very naturally to me. But by now I'm always up at 5 am. So by the time, you know, the business day starts and all that I'm done with most of my to-do list at 9 am.

WS: How do you like to give back?

JU: As you've probably noticed, I'm pretty passionate about this sustainability issue. So I give money to organizations that work on these issues but also try to advise and help people get into taking these things seriously, that is certainly a big one for me. Another one is I am very interested in just finding ways to help both people and other living beings like animals just suffer less. So I give money to organizations that work on animal welfare or poverty issues.
WS: Awesome, Johannes. It's been a pleasure to meet you and have you on the show. And that's really got to talk about some things I don't think we've really talked about on the show, maybe at all, not more than once or twice anyway. I mean, as far as from climate change to 3D printing, you know, I think that's probably something we're gonna hear more and more about, especially over the next year or two. And as that grows, right, and, and gains more confidence, you know, in our market and probably many markets.

But, you know, congratulations, you for stepping out of the stock market right out of that comfort zone. And man, you know, doing something that's changed a lot for you now, right? I mean, now you're even active in this space. That's pretty incredible. So I hope that encourages many listeners, I know it will fit in also, you know, diving into 3d printing and real estate, climate change, and how those things are going to change moving forward, and how that may affect our businesses, right, in a massive way. I think it's a kind of a wake-up call for many of us, hey, you need to be learning about some of these things, right?

Johannes, you've brought these things, you know, to us. And we should be learning and educating ourselves about these because it is things that are things that are coming right that are going to affect our businesses in a big way. So thank you for that. Tell the listeners how they can get in touch with you and learn more about you.

JU: So they easiest thing to do is really through LinkedIn. So I spend a lot of time on LinkedIn messages and all that so you can find me there. I'm the only pharmaceutical owner in the world. So if you use my name, you'll find it easily. You should also check out the website of my business Oasis Equities. So that's just oasisequities.com. Take a look you can find all about our portfolio investment and so on there.

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[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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