Episode 1489

[INTRODUCTION]

Bronson Hill (BH): Rents are slightly behind, but basically, it's a great way to be able to hedge inflation. So we know rents are gonna continue to rise for a number of reasons because they've created all this currency. They created a 40% increase in the currency supply over a two-period from February of 2020 to February of 2022.

So all this new currency, where's it gonna go? It's gotta go into things like rent. So if you are an owner passively or actively, you own a large apartment building, you're a part owner, you're a limited partner in that one of Whitney's deals or one of my deals or somebody's deals, you're gonna experience cash flow in that deal. You're gonna experience hedge in inflation that the value will rise over time. You're gonna have some amazing tax benefits, either pay no taxes or defer taxes. And you're also going to have appreciation of the asset over time."

Whitney Sewell (WS): This is your Daily Real Estate Syndications Show. I am grateful that you are back with us again today. I am your host, Whitney Sewell. So we have back Bronson Hill. You heard us yesterday. I hope you heard yesterday, Bronson, to elaborate on his story and pivoting from some different positions and some that most we consider highly successful and he had to make a pivot, or he did and made a hard choice. He elaborates on some of those things that I know you learn from.

WS: But today, you know, we're gonna jump more into multifamily specifically in large multifamily, and some of the benefits or some of the risks and different things that he has learned and what's happening with rents, what's happening with tenant. Well, how should we think about raising rents on tenants or, I mean, just numerous things even into investor appetite softening for raising capital and what should we do? What's he doing? You know, because it's harder to raise funds right now. We've all heard that or experienced it firsthand for the most part. You're gonna learn a lot from Bronson today.

[INTERVIEW]

WS: Bronson, welcome back to the show. I wanna thank you again just for your segment yesterday, and you're laying out, man, your path to real estate success. All the different turns that you took, and even encouraging us though that, hey, we can make that big step. We can think differently about the risk versus reward and focus on hopefully the reward, right? Instead of just living in fear, which you man, you stepped through that, so welcome back.

BH: Thanks, man. It's great to be back and yeah, I think there's that saying, you know, you wanna make God laugh, tell him your plans, right? Cause like there's so something different. So I think he doesn't give it to us all at once cuz we'd probably freak out. But one day at a time, you know, it's a day by day journey and walking with God and of course doing real estate and business is a blast. But great to be back then.

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WS: Yeah, I hope the listeners will go back and listen to yesterday's show with Bronson just hearing more of his story. You're gonna be encouraged and no doubt about it. And so just grateful to have him back. We're gonna dive more into multifamily and some of the technical side today that I know just share so much. But Bronson, why multifamily and you had a single family business. Maybe you can share a little bit about how you feel like multifamily's outperforming single family or even just some of the basic benefits but feel free to go more in depth as well.

BH: Yeah, so it's interesting right now. I'm gonna go a little bit kind of, you got a single asset, then you've got kind of the macroeconomics above it. If you weren't paying attention to the macroeconomics, just, which is just, you know, what's going on in the big picture in 2008, 2009, you could have lost everything. And I know friends that lost everything cuz they weren't paying attention. But it's important just really to pay, keep paying attention to everything. So we do a lot of that on our show, The Mailbox Money Show. We talk about some of the, a lot of the macroeconomics. But right now I think it's a lot of investors are concerned that, you know, interest rates are rising. You know, the cost of a single family house payment now has gone up 41%. From a 3% mortgage rate to now a 7% as a huge increase in just the payment. The people are concerned. But I see that as being a real positive for multifamily because people can afford less to buy homes now.

BH: The single family market's kind of cooled off. Where are these people gonna live, right? Well, they're gonna go live in apartments. They're gonna live in places that, that you and I own, and we can create great housing for them. But just in general, there are some great advantages to multifamily, just from a high level, you have an asset really that it hedges inflation phenomenally well, inflation right now officially is, you know, eight or 9%, whatever.

BH: I think, you know, unofficially it's more like 15 to 18%. If you look at a site called Shadow Stats that actually looks at actual costs. And so if you're holding cash, you could be losing up to, you know, 35, 40% of your wealth just by holding cash for the next two years. So people don't realize, you know, the confused mine will say, I'm just gonna wait. But I think it's an incredible opportunity cuz if you're, if you buy an asset that really pays you to hold it, meaning if I put up a chart, there's a chart I could show you for Mother Jones, that's a publication from 1960 to now, it shows that the inflation and rents kind of, they go hand in hand. They're almost kind of lockstep.

BH: Rents are slightly behind, but basically it's a great way to be able to hedge inflation. So we know rents are gonna continue to rise for a number of reasons because they've created all this currency. They created a 40% increase in the currency supply over a two period from February of 2020 to February of 2022.

BH: So all this new currency, where's it gonna go? It's gotta go into things like rent. So if you are an owner passively or actively, you own a large apartment building, you're a part owner, you're a limited partner in that one of Whitney's deals or one of my deals or somebody's deals, you're gonna experience cash flow in that deal. You're gonna experience hedge in inflation that the value will rise over time. You're gonna have some amazing tax benefits, either pay no taxes or defer taxes. And you're also going to have appreciation of the asset over time.

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WS: Yeah, no doubt. I hope passives are listening our, their ears are perked up, right? You know, as we're thinking through the benefits of multifamily. No doubt. That's why I got in multifamily as well. Many of those same reasons and many more. But you mentioned you had friends that lost everything 2008, you know, and you mentioned like, and they weren't paying attention. You know, I would ask, what would you say they missed more times than not? Or what should they have been paying attention to or should have done even?

BH: Yeah, so I think the reason why a lot of people lost money in 2008, 2009 or lost everything, some of 'em, is the idea of leverage. Now, leverage can work for you or it can work against you, right? If we have for example, a piece of real estate, let's just say it's a single family house. You bought it for a hundred thousand and you put 20% down, 20,000, you know, down, and it went up, you know, $20,000. You haven't had a 20% increase in your money. You've had a hundred percent increase in your money. So that's an advantage, but it also could be a disadvantage, right? If you have the wrong type of debt, if you're assuming things will go up.

BH: And there were people that had a lot of interest only kind of arm adjustable rate mortgage debt. And if you were leveraged down, you kept buying more and more houses, cuz the assumption was that real estate can only go up. It never goes down. Cuz historically it really never had. And so everybody was speculating and just kind of thinking, you know, oh, this can never change. But what happened is when the credit markets seized up, and this is kind of what we always watch for, as they say, what's happening in the credit markets. Credit markets have to do with what kind of loans can you get on your property? And I think that's the same risk that's out there now. Now I'm still buying, we're buying a lot of apartment buildings, particularly in Jacksonville, Florida.

BH: We're really excited about it. We have to see a lot of upside. But you know, if people are buying stuff with the wrong type of debt or they're assuming that rents are gonna continue to go up, I personally think there's just certain types of real estate that are more risky. I think whenever you have a value add component, meaning like we're buying property that you know, is built in the 1970s or 80s, we're coming in doing renovations, and then we're seeing a, you know, 40, 50% upside in the rents just by doing a mi, you know, a light rehab.

BH: That gives a lot of what mar-what Warren Buffet calls a margin of safety. So a margin of safety is just what happens if things don't go well. Do you have some sort of contingency plan here, right? Versus let's say you're buying a place and you're just assuming it's gonna go up to the root. Well what happens if that goes the other way? So it's important to stress test. It's important to look at, you know, just different options so that you don't get in a place where you are too leveraged or you are not able to get financing in a pinch.

WS: Yeah, no doubt man. We can learn so much from that time period, right? I hope we're learning anyway so we don't relive even though it's a different time, but there's still some turbulence. No doubt about it, you know, as we speak.

BH: Right.

WS: But do you say, you know, multifamily properties still offer, you know, better returns even with the market correction, say, you know, potentially we're having right now.

BH: I would say multifamily, honestly, not what a lot of people believe, but I think right now multifamily is the most attractive investment out there, even at rates of six and a half or 7% or whatever.

BH: And the reason why is this is when you buy a place. Now, looking back, I think in two years, people look back at the season right now and say, I wish I had bought everything I could. And the reason why is because when you buy a place, the price you pay is fixed, but the rate that you are paying or the rate that you get is adjustable. So rates typically rise. There's kinda some of the macro picture here. Rates typically only rise as far as what the Federal Reserve is raising rates. Typically six to 12 months, sometimes as long as two years, but it's typically not that long before they start lowering rates. The Bank of England recently started reversing course and lowering rates, right?

BH: So there's a matter, there's only a matter of time they're gonna keep raising rates and then they're gonna start lowering rates. So if you buy and the rates are higher, what's gonna happen if rates go back down to 4% or five or three or whatever, if it goes lower, the valuations, a lot of these assets could go up a lot. So it's hard to say. It's, you I follow a lot of Warren Buffett stuff, but he has a saying, be fearful when others are greedy and be greedy when others are fearful. So a lot of, there's an opportunity. You know, a lot of times people, the idea of blood in the streets, or they'll say, oh my gosh, we're afraid we don't know what to do.

BH: There can be some incredible opportunities there. So not every deal is the best deal to been involved with. Not every thing that you look at, you should be just throwing money at everything, but there can be deals that make sense, that have a margin of safety, that you know you're gonna be fine like the deals we're doing. As long as we can do these renovations, we can do 80% of these renovations over the next two years. We know we're gonna be just fine no matter what happens with interest rates, no matter what happens with valuations or cap rates because we're adding so much value to the property, right? So I think having multiple plans in that, but I think it's an incredible time right now, not just because I'm a multifamily guy, but because, you know, we're getting some discounts on pricing. And again, the interest rate can be adjusted later potentially.

WS: Wow. Yeah. Obviously we love multifamily too, so you know, we're right in there with you. You know, you mentioned earlier rents are gonna continue to rise and, but I get to question often, it's like, well, how can tenants afford it? How can it keep going up? You know? And what do you think about that?

BH: It's a challenging situation because you know, on one hand, inflation, a lot of these things we call the covid stimulus stuff and the Inflation Reduction Act, which is

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kind of a silly name cuz it makes inflation worse. It actually hurts the people it's trying to help, right? So it gives handouts to people that don't own assets. And then everything starts costing more. So, you know, the challenge is if you're wealthier, if you're like, you know, a lot of our listeners or you and I like, we own stuff that we can hedge and we can actually do well again, inflationary times, but people that a lot of people are paying rent that don't own assets, they're gonna be hurt by it.

BH: Now, over +time+++. Hopefully, you know, wages will begin to rise, which we're seeing, and especially in certain markets, wage wages are starting to rise. But the challenge is they're not building a lot more housing. You know, there's not a lot more apartment buildings being built, particularly for working class folks.

BH: And you know, depending on what studies you look at, we're between, you know, 3 and 7M apartment unit short in the US. So, you know, there's different opinions on those numbers. But if we're short of houses, so again, you have less supply, you're gonna have continued demand cause the population growth you have actually more demands we talked about. Cause the less people are going into single family houses and people are gonna need it. So the only thing that can happen is that rents have to go up. Now they could get to a point where they stabilize, or people just say, rents here are too expensive. I'm gonna go live 30 minutes away. And that's an option as well.

BH: So I think that's maybe all the above happen, but I just, I don't see a situation where rents just come down or that, you know, we're at a place where real estate, okay, real estate's high and real estate's gonna come down and whatever. Well, there's all this new currency in here. So I think we're just at a place where we're gonna have perpetually high inflation. And I think, you know, cost of everything, even building new apartments is gonna continue to rise. So, I mean, I wanna ask you, actually, I ask you the question. Do you see a thing where rents will come down or that they will adjust, or even cost for building apartments will come down? Whitney, what do you see?

WS: Yeah, you know, that's a good question pull my book out here. I wonder myself, you know about some rans as we make projections, we're trying to just be ultra conservative as far as any kind of rent growth, right? Because we, as things get more expensive too, it's like, you know, depending on what class attendance you have, you know, can they afford rent going up when they can barely afford feed? And if that's the case, well most of them are gonna choose to eat first, I think. You know, but they do have to have a place to live. And so, you know, in another side, We wanna care for our tenants. We care about them. We care about all these families that we're housing, and ultimately we wanna provide safe, affordable housing for them, right?

WS: And for their families. And I know just like you, I mean, our goal would be for, to share the gospel with them, you know, and to care for them in that way. But all that to say, part of the business is that rents have to go up to some degree potentially, right? You know, over time or increase the value of the property. And so we do expect rents to go up some, but we don't expect it to be like it's been over the last three years, five years, you know, whatever. It's been 15 to 20% annually in some places, you know, something crazy like that. But I think a modest amount we can count on it going up, you know, to some degree.

BH: I think too, there's something too about the model of what we do of value add real estate because I think it's important to address this cuz some people have a hard time with just, you know, we come in, we obviously people move outta apartments. People realize every year, usually about half the people move.

BH: So when these places are vacant, we can come in and do those renovations. But, you know, Is it ethical or unethical? Is it right to be somebody who adds value to an apartment and then people move in and now rents are 30% higher, 50% higher. And I would say the answer is yes, because there's really two types of apartments, right? There's the apartments that just perpetually get run down and you think of apartments, you've taken over, I've taken over, and you get bad actors in there. You get people that are, you know, drugs going on. You get all kinds of stuff. And so there will always be places like that. And unfortunately, the unfortunate part, Is that as we do these renovations, and as you know, again, we're not how it works with you, I imagine you're not raising rent substantial on people that are living there.

BH: It's more about as people move out, you're doing the turns and you're renovating and that kind of thing. But as we're making a nicer place, we're picking the trash up, we're doing landscaping, we're giving people a sense of ownership, of pride in where they live. Then they'll start to say, Hey, this stuff is not okay. They start to report things and it becomes a much better place. So I kind of look at do, is it good for things to fall into disrepair? And you know, the challenge if someone. Is not able to afford, you know, as rents rise, then they may have to move to a place that's not as nice. Yeah. And that's the challenge of, and

BH: that I think that's more of a thing of, you know, inflation and our culture and monetary policy and just, but it is, it's a real important problem to wrestle with, especially as a Christian, like what do you, what is the right thing to do here?

BH: I really think it is to create a better community, to create a place where people can feel empowered and they can have a place they feel safe. Yep. And you really care for the property.

WS: Yeah. We're not kicking people out, Right. That are paying, I guess I should say. Right. , you know, But there's a reason why there's high crime in some communities, right? Or a trash is piling up, or you're gonna have to pay, you're gonna pay more for some place that's taking care of those things. Right. It takes a lot of man. To make that those things happen. but ultimately we do, we want it to be safe, right? and people, you know, families to feel safe, you know, living there, No doubt about it.

WS: And so, as we maybe move towards the end of this segment here, I'd love any more thoughts you have on just the next 12 months, six to 12 months, you know, and any ways you're looking different at buying deals than maybe you would have a year.

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BH: Yeah, it's really interesting because I said all the, you know, these positive things about multifamily. There are a lot of people right now that, and maybe a lot of listeners are very confused. Like, I don't know what to do. And I just see a lot of changes with what's happened in the stock market and thinking, okay, I've got a lot less wealth. There's this kinda, this wealth effect, right? So we're seeing investor appetite soften a bit, right?

BH: The last six months it's been more difficult to raise money and sun is even, we've had to raise more money because of the lender requirements of change. So it's getting harder to do that. I mean, personally, I'm investing in multifamily. We've got our deals going, I'm also doing things around multifamily, so we've got our ATM machine fund. Fifth largest operator of ATMs in the country. That's a very predictable cash flow deal. And so we've got people doing that. I'm also looking at stuff in the energy space, the oil and gas space. I'm looking at other types of things to help kind of hedge as well. So I guess that's kind of a double answer.

BH: It's like I'm doing this, but I also understand like I'm educating people to invest, but I'm also understanding not everybody is going to just because of the wealth effect. And maybe they're feeling like, oh, my stock market account is down. Or you know, things have changed just in the way things feel. Our rates are higher. So, you know, I'm doing deals, but I'm also looking at other things that are outside of real estate also.

WS: Okay. I appreciate that outlook on the other things, looking at other places as well. You mentioned harder to raise funds right now. I've heard that across the board. I know lots of people that raise lots of money in this space. And it's very common, right? I mean, there's just more, a little more fear. You know, in the marketplace or as investors or hearing more media and seeing more headlines of whatever it is, you know, obviously just that little bit of fear makes 'em more hesitant to put those funds out there, no doubt about it.

WS: What are a couple ways maybe you're combating that or you're ensuring, you know, you're investors that, hey, this is a great project to move forward with. Or just helping them through that fear?

BH: Yeah, I think it's just really having conversations. I mean, I think even we talked about on the show yesterday about playing it out, like what is the worst case scenario? What could happen? What are the ways any deal can go wrong? Like what's the biggest risk there? I always ask that to potential operators. What's the biggest risk? What could happen here that could cause things to not work the way it's planned and see if it's the same thing I thought? Cause I try to think, well, how would I answer that even?

BH: What would I know? And then how would they answer that? And so I think for people, you know, in general, I would just say, If like in the situation we're doing, if you're doing value ad multifamily, very upside in what you're doing. It provides a huge margin of safety that even if rates go to 15% or 12%, which I don't think they will, but if they did, we'd still be okay because of the value we're adding in a property.

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And honestly, all of that stuff, in my opinion, it all leads to higher ownership costs. So what's the long term result of higher interest rates? It's higher ownership costs, which leads to higher rent, which leads to higher valuations in general.

BH: So obviously, there might not be just a straight line in a certain way, there may be some volatility there, but I think in general, we know we need more housing, there's a huge demand for it. There's a supply shortage and that there's no technology that's in place that shows that we're not gonna need a roof over their head or a bed to sleep on, right? Like we haven't found any sort of technology breakthrough that's gonna change that. So all those things are positives. We look at the long term and we think, man, the future's very bright.

WS: Bronson, I grateful for your, this time today as well. Just a great show around you, just your thoughts around even 2008 to the current economic market and climate and how even the investor appetite, you know, softening and how you're combating that a little bit as you're speaking to investors and in combating their fears, you know, around what's happening right now.

WS: Tell the listeners how they can get in touch with you and even find your ebook and then we're gonna have another show tomorrow with you. Which I'm grateful for as well. We're gonna jump into some other stuff around syndication and case studies and whatnot, but for today, how can they get in touch with you?

BH: Awesome. Well, thanks for having me, man. I really appreciate the questions, the thoughts. Obviously, you just love your faith and everything you're doing and adding value to the marketplace here, so thanks for all that. People wanna reach out. I have this ebook I wrote, it's called How to Use Inflation to Your Advantage. It's 52 color pages of my website, bronsonequity.com. You can reach out to me there. Also, I'm also on all the social medias so you can reach out but look forward to connecting with past investors or people that are interested in being active also.

[END OF INTERVIEW]

[OUTRO]

WS: 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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